



Los Angeles Community College District

Report on Audited Basic Financial Statements

June 30, 2007

LOS ANGELES COMMUNITY COLLEGE DISTRICT

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INTRODUCTION



LOS ANGELES COMMUNITY COLLEGE DISTRICT

CITY • EAST • HARBOR • MISSION • PIERCE • SOUTHWEST • TRADE-TECHNICAL • VALLEY • WEST

OFFICE OF THE CHANCELLOR

Marshall 'Mark' Drummond, Chancellor

February 8, 2008

Members, Board of Trustees
Los Angeles Community College District

I have received and reviewed and am pleased to submit the Annual Financial Report of the Los Angeles Community College District (District) for the fiscal year ended June 30, 2007. This report is presented in six sections, which include an Introduction, the Management's Discussion and Analysis, the Independent Auditors' Report, the Basic Financial Statements, the Supplemental Financial Information, and Other Supplemental Information as noted in the table of contents. The report also includes all Funds of the Los Angeles Community College District as well as those of student organizations.

The introductory section contains my remarks to the Annual Financial Report and a brief summary of the District's employment and enrollment. The Independent Auditors' Report provides the auditor's opinion on the audit. The Management's Discussion and Analysis provides the management information and analysis on the district's financial changes and condition for the year. The basic financial statements include the three financial statements, as well as the notes to the basic financial statements. Supplementary information includes the combining and individual funds and account group financial statements and schedules, a description of the organization of the District, a schedule of full-time equivalent students and apprenticeship clock hours and a reconciliation of the financial statements to the Annual Financial and Budget report submitted to the State of California. Also included in this section are the independent auditors' reports on the internal accounting and administrative controls of the District as well as the State and Federal compliance required by the California State Department of Finance and the Single Audit Act of 1984. The final section provides the current year's audit findings and recommendations as well as the implementation status of the auditor's prior year recommendations.

The District is responsible for the accuracy, completeness and fairness of the financial statements, including all disclosures. We believe that the data presented are accurate in all material respects and present fairly the financial activities of the District's various Funds, and that the informative disclosures are sufficient to provide an understanding of the District's fiscal affairs. The auditors' opinion included in the annual report reflect our belief.

The District and its nine campuses provide a broad range of educational services to students within the Los Angeles area. The nine Los Angeles community colleges comprise one of the nation's largest community college systems – the result of a movement which had its beginning in the California State Legislature in 1907, the year the Caminetti Bill was passed, permitting high schools to offer postgraduate courses. The Ballard Act of 1917 and the Deering Act of 1929 assured financial support for the State's community colleges.

In March 1931, a separate Los Angeles Junior College District was created and granted a taxing power of its own and was designed to serve a larger area than the city. The Board of Education and the Superintendent of Los Angeles County Schools assumed administrative control of the District. Due to the dramatic expansion during the postwar period, the state's two-year junior colleges were moved away from the secondary education system and into higher education. In 1967, Governor Reagan authorized establishment of a Board of Governors for the California Community Colleges. In that same year, legislation passed which provided for a separate community college Board of Trustees and administration. The first Trustees of the Los Angeles Community College District were sworn into office on July 1, 1969.

The Los Angeles Community College District serves approximately 114,100 students, employs approximately 3,581 full-time and 5,847 part-time personnel and covers a service area of more than 800 square miles.

Enrollment

The Los Angeles Community College District's enrollment for the fiscal year ended June 30, 2007 increased by 2.1% from the previous year. The enrollment figures (credit student headcounts) by campus for the 2006-2007 fiscal years were as follows:

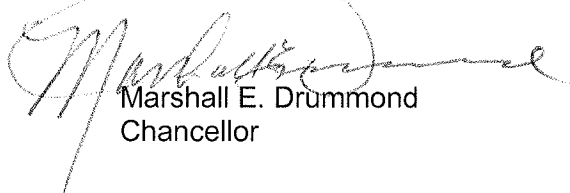
	<u>Fall</u>	<u>Spring</u>
East Los Angeles College	21,109	20,693
Los Angeles City College	16,119	16,144
Los Angeles Harbor College	8,111	7,611
Los Angeles Mission College	7,540	7,464
Pierce College	18,556	18,488
Los Angeles Southwest College	5,931	5,719
Los Angeles Trade-Technical College	12,519	11,575
Los Angeles Valley College	16,376	16,396
West Los Angeles College	8,088	8,730
Instructional Television	428	538
Total districtwide	<u>114,777</u>	<u>113,358</u>

The Los Angeles Community College District's FTES (Full time equivalent student) figures for the fiscal year ended June 30, 2007, the measure by which the State of California funds Community Colleges, increased by 15.7% from the previous year as follows:

	<u>Credit</u>	<u>Noncredit</u>
East Los Angeles College	21,234	1,437
Los Angeles City College	13,450	1,722
Los Angeles Harbor College	6,771	183
Los Angeles Mission College	5,171	223
Pierce College	14,184	272
Los Angeles Southwest College	4,813	594
Los Angeles Trade-Technical College	11,346	643
Los Angeles Valley College	12,729	405
West Los Angeles College	6,408	231
Instructional Television	536	—
	<u>96,642</u>	<u>5,710</u>

Your attention is directed to the Independent Auditors' Report, the Management's Discussion and Analysis, and the Basic Financial Statement sections which represent the complete representation of the district's financial information.

Sincerely,



Marshall E. Drummond
Chancellor



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have audited the accompanying basic financial statements of the Los Angeles Community College District (the District) as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Los Angeles Community College District as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 14, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. The management's discussion and analysis does not include 2006 information that U.S. generally accepted accounting principles require to supplement, although not required to be a part of, the basic financial statements. We have applied certain limited procedures to the 2007 information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental financial information and other supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements, and the accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The supplemental financial information on pages 38 through 51 and the schedule of expenditures of federal awards on pages 57 through 59 have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The postretirement information on pages 26 and 27 (note 8(d)) and the supplemental information on pages 35 through 37 (note 13), 54 through 56 and 60 have not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

March 14, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2007

This section presents Management's Discussion and Analysis (MD&A) of the Los Angeles Community College District's (the District) financial activities during the fiscal year ended June 30, 2007. The discussion has been prepared by management and should be read in conjunction with the basic financial statements and the notes thereto, which follow this section.

Financial Highlights

- The assets of the District exceeded its liabilities as of June 30, 2007 by \$422.2 million (net assets). Of this amount, \$72.8 million (unrestricted net assets) may be used to meet the District's ongoing obligations and \$42.3 million (restricted net assets) may be used for the District's ongoing obligations related to programs with external restrictions. The remaining component of the District's net assets represents \$307.1 million of amounts invested in capital assets, net of related debt.
- The District's total net assets increased \$57.6 million during the fiscal year ended June 30, 2007. A significant portion of the increase in the District's net assets was a result of increases in state apportionment, local property taxes, nonoperating revenue, and investment income in capital provided for General Obligation Bonds (G.O. Bonds) in the fiscal year ended June 30, 2007.
- The District's investment in capital assets (net of depreciation) increased by \$206.6 million or 28.0% during the year ended June 30, 2007. Capital construction projects related to the Proposition A and AA Bonds accounted for \$646.7 million in capital expenditures (net of depreciation) at June 30, 2007. The District also acquired one property valued at \$3.4 million for Los Angeles Mission College, acquired three properties valued at \$4.2 million for the Los Angeles Trade-Technical College, and sold one property carried at \$25.0 million of East Los Angeles College for \$29.9 million.
- The District's total long-term liabilities increased by \$333.7 million or 46.5% during the fiscal year ended June 30, 2007. The addition is primarily due to a net \$331.2 million increase in long-term debt, \$0.4 million decrease in revenue bond payable, a \$2.3 million increase in capital lease, and a \$0.6 million increase in accrued vacation benefits, general liabilities, and workers' compensation.

Overview of the Financial Statements

The District follows the financial reporting guidelines established by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*. These statements require the District to report its financial statements at an entitywide level under the business-type activity reporting model. This MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include four components: (1) Balance Sheet; (2) Statement of Revenues, Expenses, and Changes in Net Assets; (3) Statement of Cash Flows; and (4) Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Balance Sheet represents the entire District's combined assets, liabilities, and net assets, including Associated Student Organization financial information. Changes in total net assets as presented on the Balance Sheet are based on the activities presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets represents the revenues received, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the District. The Statement of Cash Flows presents detailed information about the cash activities of the District during the year.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2007

The purpose of these financial statements is to summarize the financial information of the District, as a whole, and to present a long-term view of the District's finances.

Balance Sheet

The Balance Sheet presents the assets, liabilities, and net assets of the District as of the end of the fiscal year. The Balance Sheet is a point-in-time financial statement. The purpose of the Balance Sheet is to present to the readers of the financial statements a fiscal snapshot of the District. The Balance Sheet presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). From the data presented, readers of the Balance Sheet are able to determine the assets available to continue the operations of the institution. Readers are also able to determine how much the institution owes vendors, investors, and lending institutions.

Finally, the Balance Sheet provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant, and equipment owned by the institution. The second net asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final net asset category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Statement of Revenue, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Balance Sheet are based on the activities presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the District, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the District.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the District. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2007

Financial Analysis of the District as a Whole

As of June 30, 2007, the District's net assets have increased \$57.6 million or 15.8% from \$364.6 million at June 30, 2006 to \$422.2 million at June 30, 2007. The increase in net assets resulted from significant increases for current assets, capital assets, and long-term liabilities. Current and other assets increased \$213.9 million and capital assets increased \$206.6 million. Current liabilities increased \$29.2 million and noncurrent liabilities increased \$333.7 million.

Summary Schedule of Net Assets

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>	<u>Increase</u>
Assets:			
Current and other assets	\$ 691,831,874	477,971,968	213,859,906
Capital assets, net	945,584,486	738,970,514	206,613,972
Total assets	<u>1,637,416,360</u>	<u>1,216,942,482</u>	<u>420,473,878</u>
Liabilities:			
Current liabilities	164,581,255	135,367,466	29,213,789
Noncurrent liabilities	1,050,636,467	716,940,420	333,696,047
Total liabilities	<u>1,215,217,722</u>	<u>852,307,886</u>	<u>362,909,836</u>
Net assets:			
Invested in capital assets, net of debt	307,099,178	283,789,661	23,309,517
Restricted – expendable	42,300,505	29,259,544	13,040,961
Unrestricted	72,798,955	51,585,391	21,213,564
Total net assets	<u>\$ 422,198,638</u>	<u>364,634,596</u>	<u>57,564,042</u>

The \$213.9 million increase in current and other assets is due in part to the \$28.8 million increase in cash and cash equivalents, the \$82.3 million increase in restricted cash and cash equivalents, the \$103.0 million increase in restricted investments, and the \$0.2 million decrease for the rest of the current and other assets.

In 2007, the District spent \$225.8 million on capital assets, capitalized interest of \$20.4 million, sold \$25.0 million of capital asset, retired \$0.1 million of net capital assets, and depreciated \$14.5 million of capital assets.

The \$29.2 million increase in current liabilities is due to a \$26.3 million increase in accounts payable as a result of increased construction related costs and a \$2.9 million increase in accrued and current portion of long-term debt.

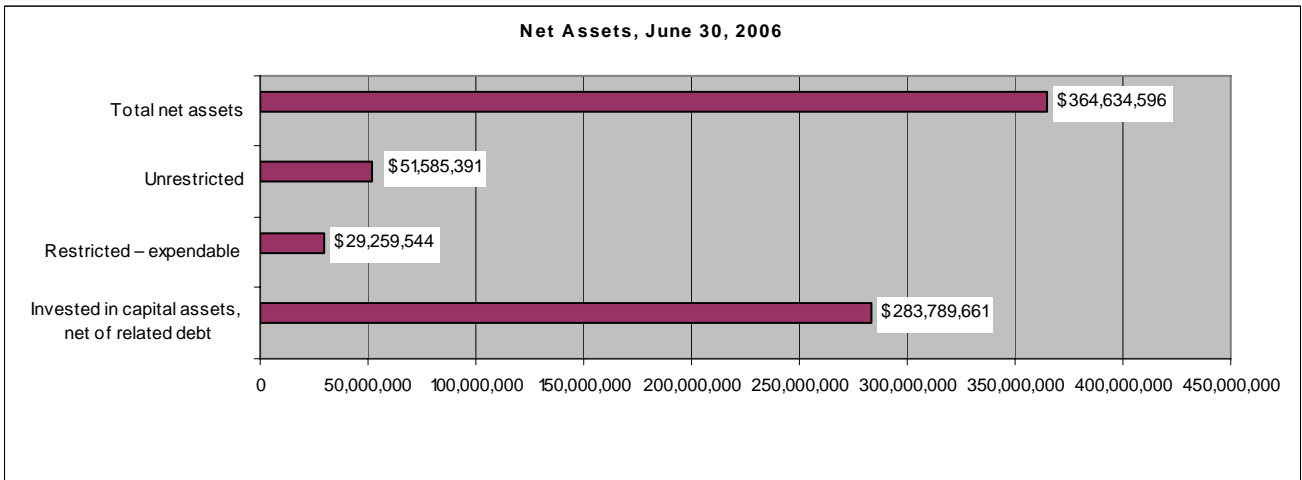
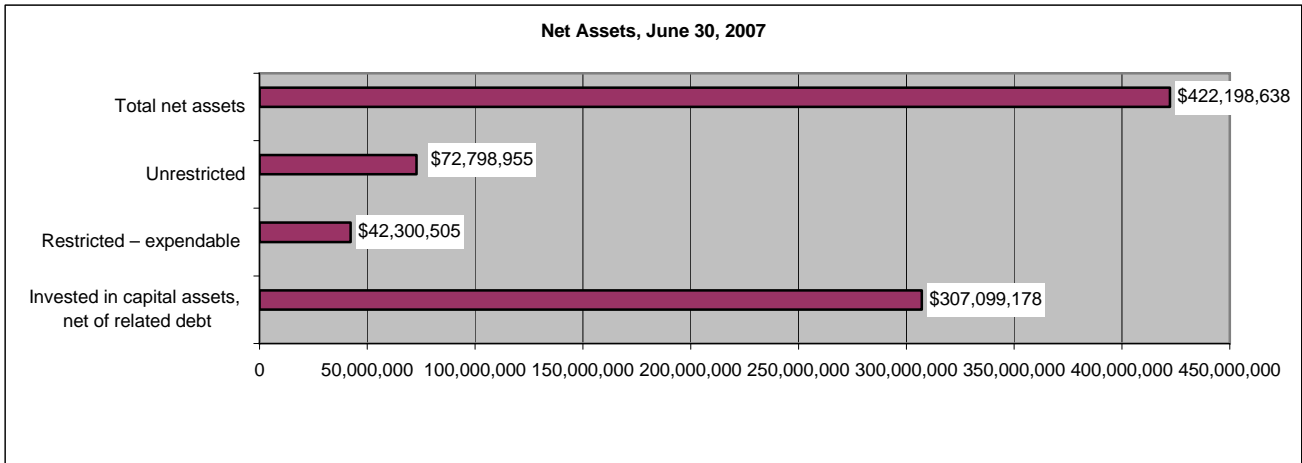
The \$333.7 million increase in long-term liabilities is primarily due to a net \$331.2 million increase in long-term debt, a \$0.4 million decrease in revenue bond payable, a \$2.3 million increase in capital lease, and a \$0.6 million increase in accrued vacation benefits, general liabilities, and workers' compensation. The \$331.2 million increase in long-term debt liabilities is due to new bond issuances in the year of \$350 million, additional original issue

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2007

premium of \$15.8 million (net of annual amortization), amortization of prepaid interest on advance refunding of \$4.9 million and the annual debt services payments of \$39.5 million for the G.O. Bonds. The District deposited all bond proceeds in the County of Los Angeles Treasury cash and investment pool. The majority of the District's long-term debt is used to fund the construction and acquisition of capital assets.



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2007

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$422.2 million at June 30, 2007. A significant portion of the District's net assets represents \$470.5 million of restricted cash, cash equivalents, and investments for capital projects, \$945.6 million of capital assets, and \$1,011.3 million debt of revenue bonds and G.O. Bonds.

Summary Schedule of Revenues, Expenses, and Changes in Net Assets

	Years ended June 30, 2007 and 2006		
	<u>2007</u>	<u>2006</u>	<u>Change</u>
Revenues:			
Operating revenues:			
Net tuition and fees	\$ 38,603,895	38,188,198	415,697
Grants and contracts, noncapital	140,399,486	139,225,157	1,174,329
Other	33,827,358	31,659,271	2,168,087
Nonoperating revenues:			
State apportionments, noncapital	355,039,118	299,591,511	55,447,607
Property taxes	124,292,391	116,207,292	8,085,099
Investment income	30,292,399	22,885,520	7,406,879
Local tax for G.O. Bonds	61,899,477	75,728,898	(13,829,421)
Other	39,358,945	21,540,310	17,818,635
Other revenues:			
State apportionments, capital	10,323,197	11,744,106	(1,420,909)
Local property taxes and revenues, capital	5,218,933	2,730,063	2,488,870
Total revenues	<u>839,255,199</u>	<u>759,500,326</u>	<u>79,754,873</u>
Expenses:			
Operating expenses:			
Salaries	384,346,738	357,508,134	26,838,604
Employee benefits	115,326,994	103,531,517	11,795,477
Supplies, materials, and other			
operating expenses and services	233,680,155	205,737,409	27,942,746
Other	22,402,675	21,752,288	650,387
Total operating expenses	<u>755,756,562</u>	<u>688,529,348</u>	<u>67,227,214</u>
Nonoperating expenses:			
Interest expense	24,198,111	24,416,495	(218,384)
Other	1,736,484	2,063,626	(327,142)
Total expenses	<u>781,691,157</u>	<u>715,009,469</u>	<u>66,681,688</u>
Change in net assets	<u>\$ 57,564,042</u>	<u>44,490,857</u>	<u>13,073,185</u>

The summary of revenues, expenses, and changes in net assets reflects an increase of \$57.6 million in the net assets at the end of the year as explained below.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

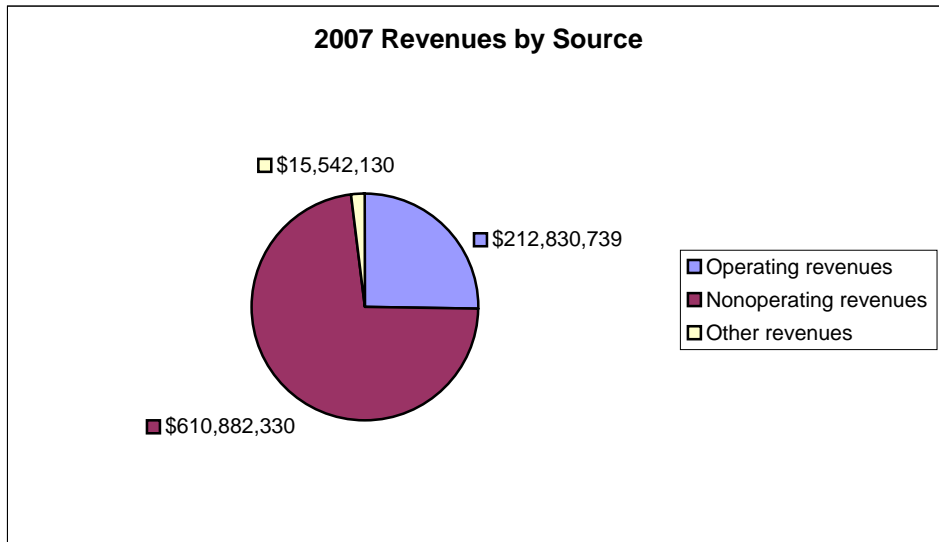
Management’s Discussion and Analysis

June 30, 2007

Operating revenue for tuition and fees, grants, and contracts – noncapital resulted in a net increase of \$3.8 million, which includes a \$0.4 million increase in tuition and fees, a \$2.5 million decrease in federal funded programs, a \$4.1 million increase in state-funded categorical programs, a \$0.4 million decrease in local revenue, and a \$2.2 million increase in auxiliary enterprise sales and charges.

Nonoperating revenues increased \$74.9 million. The increase is due in part to the following:

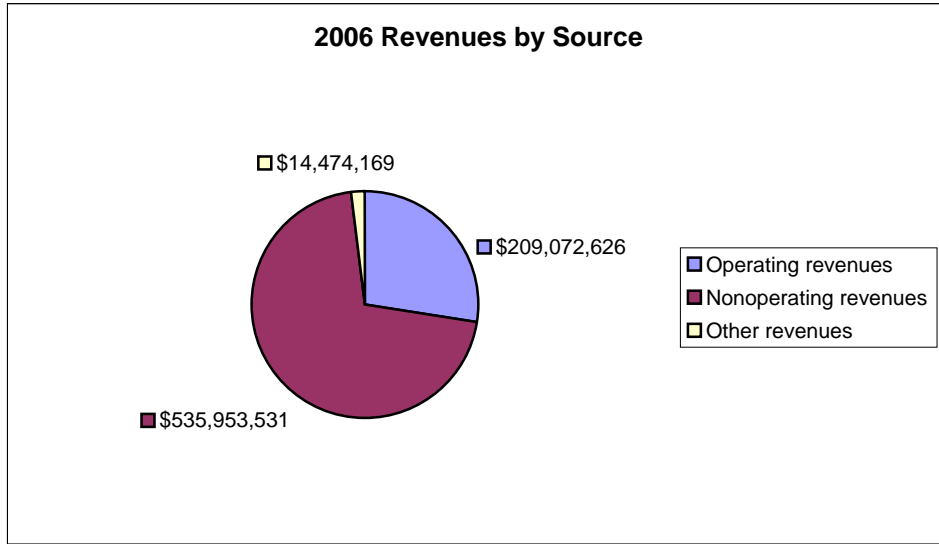
- (1) \$55.4 million increase in state apportionments principally due to a \$22.8 million increase in cost of living adjustment (5.92%), a 3.93% enrollment growth or \$18.9 million, and \$13.7 million increase for one-time general apportionment block grants in fiscal year ended June 30, 2007.
- (2) \$8.1 million increase in local property tax.
- (3) \$7.4 million increase in investment income.
- (4) \$17.8 million increase in other nonoperating revenue, which includes a \$4.9 million gain on sale of fixed assets. \$8.6 million increase in one-time general purpose block grant, and \$3.1 million increase in career technical education equipment grant.
- (5) \$13.8 million decrease in local taxes for G.O. Bonds primarily due to \$2.2 million increase in principal and interest payments in the current year and \$16.0 million decrease related to issue premium and issuance cost assumed by L.A. County.



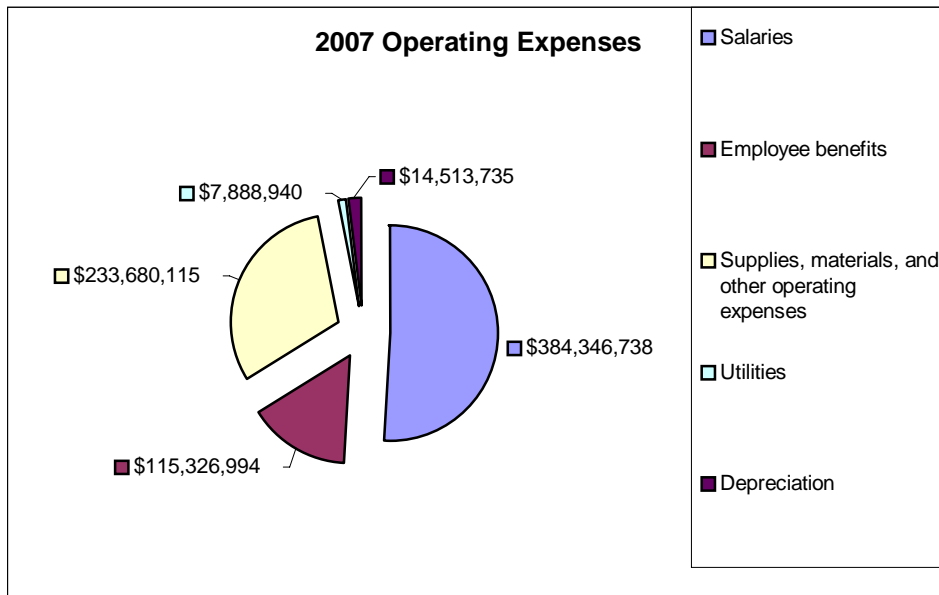
LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2007



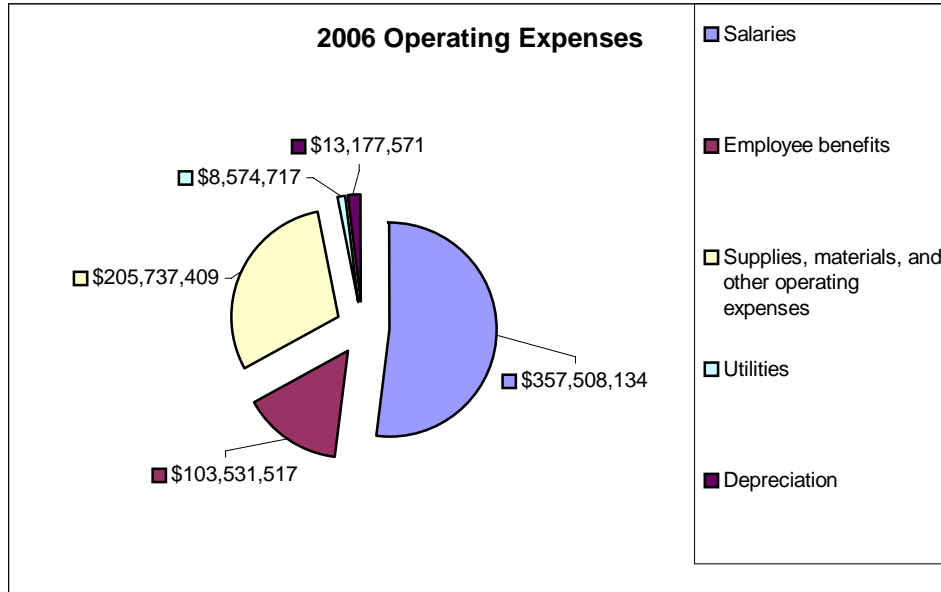
Operating expenses increased \$67.2 million, primarily due to a \$26.9 million increase in salaries resulting from the salary increases of 4.00% granted to all full-time employees and 5.92% for adjunct assignments, \$11.8 million increase in employee benefits, \$27.9 million increase in supplies, materials, and other operating expenses and services, \$0.7 million decrease in utilities, and \$1.3 million increase in depreciation expense.



LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2007



Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets as of June 30, 2007 and 2006 totaled \$945.6 million and \$739.0 million, respectively (net of accumulated depreciation). This investment comprises a broad range of capital assets including land, buildings, construction in progress, works of art, infrastructure and machinery, and equipment. The following schedules summarize the activities of the District's capital assets for the year ended June 30, 2007:

	Capital Assets, Net 2007				Balance at June 30, 2007
	Balance at July 1, 2006	Additions	Disposals	Transfers	
Land	\$ 77,829,024	7,815,563	(25,023,470)	48,042,769	108,663,886
Land improvements	31,286,241	—	—	—	31,286,241
Buildings	398,829,407	868,203	—	40,745,375	440,442,985
Construction in progress	381,708,003	230,455,633	(909,700)	(89,364,655)	521,889,281
Works of art	518,000	—	—	—	518,000
Equipment	49,847,515	7,984,585	(622,782)	576,511	57,785,829
Infrastructure	3,551,795	47,679	—	—	3,599,474
Total	943,569,985	247,171,663	(26,555,952)	—	1,164,185,696
Less accumulated depreciation	(204,599,471)	(14,513,735)	511,996	—	(218,601,210)
Net capital assets	\$ 738,970,514	232,657,928	(26,043,956)	—	945,584,486

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2007

For the year ended June 30, 2007, the District recorded an additional \$225.8 million in capital assets, \$20.4 million in capitalized interest, \$25.0 million sale of capital assets, \$0.1 million retirement of net book value of capital assets, and \$14.5 million in depreciation. During the year ended June 30, 2007, the District's investments in facility master plans, construction, and building improvements increased due to funding from Proposition AA Bonds, which were recorded in the District's Building Fund. The District had a significant number of building projects ongoing funded from Propositions A and AA bond money. A total of \$230.5 million of capital outlay funds were spent for assets under construction. In addition, the District acquired one property valued at \$3.4 million for Los Angeles Mission College, acquired three properties valued at \$4.2 million for the Los Angeles Trade-Technical College, and sold one property carried at \$25.0 million of East Los Angeles College for \$29.9 million.

In April 2001, the District became the first community college district in the State of California (the State) to pass a property tax financed bond, Proposition A, under the new requirements of the Strict Accountability in Local School Construction Act of 2000. Valued at \$1.245 billion, the District's Proposition A Bond Construction Program stands as one of the largest community college bonds ever passed in California. The bond measure was designed to implement a capital improvement program for each of the nine colleges within the District.

In May 2003, the District passed another G.O. Bond – Proposition AA, for \$980 million. The bond measure was designed to finance construction, building acquisition, equipment and improvement of college and support facilities at the various campuses of the District and refinance other outstanding debts of the District and colleges. The District is in a major capital construction program that will continue for the next several years.

The District is in the sixth year of the Proposition A and the fifth year of Proposition AA Bond construction projects. Approximately \$908.3 million has been spent to date for Proposition A and AA combined for several capital projects at all nine colleges and to refinance outstanding debt (Certificates of Participation Notes) at both the District and colleges. The District anticipates completion of these capital projects by the year 2012. The District has issued to date \$553.5 million of Proposition A and \$615.0 million of Proposition AA Bonds.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2007

Long-Term Debt

At June 30, 2007 and 2006, the District had \$1,011.3 million and \$701.2 million in long-term debt, respectively. The District's long-term debt increased during the year ended June 30, 2007 as a result of the \$39.5 million debt services payments to matured G.O. Bonds, \$0.4 million for the energy revenue bonds payment, and issuance of new G.O. Bonds of \$350.0 million.

Summary of Outstanding Long-Term Debt

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenue Bonds:		
Energy and Water Efficiency Revenue Bonds – Phase IV	\$ 1,140,000	1,425,000
Energy and Water Efficiency Revenue Bonds – Phase V	486,611	608,264
G.O. Bonds:		
G.O. Bonds Proposition, 2001 Series	40,260,000	44,890,000
G.O. Bonds Proposition AA, 2003 Series	82,000,000	116,305,000
G.O. Bonds Proposition A and AA, 2004 Series	103,900,000	103,900,000
G.O. Bonds Proposition A, 2005 Series	433,540,000	434,110,000
G.O. Bonds Proposition AA, 2006 Series	350,000,000	—
Total long-term debt	<u>\$ 1,011,326,611</u>	<u>701,238,264</u>

The District's debt rating from Moody's is AA2 and the debt rating from Standard & Poor's is AA-.

Further information regarding the District's capital assets and long-term debt can be found in notes 6, 10, and 12 in the accompanying notes to the basic financial statements.

Economic Factors

State Economy

On August 24, 2007, the State Adopted Budget (SB77) for fiscal year 2007 – 08 was signed by the Governor. California community colleges received \$6.8 billion. The California community college system received \$377 million increase in funding from the prior year. The State gave California community colleges approximately 10.70% of Proposition 98 funds. The increases have provided a 4.53% COLA and 2.00% in enrollment growth revenue to the District. The District has also set aside a contingency reserve in the amount of \$26 million or 5.00% of its projected Unrestricted General Fund revenue for fiscal year 2007 – 08 to cover unforeseen events. The District ended the year with an increase in its ending balance of over 10.50% of its annual expenses.

Student Enrollment and State Funding

The student enrollment fee remains at \$20 per unit for fiscal year 2007 – 08. In 2007 – 08, the State provided 2.00% enrollment growth for apportionments for California community colleges. The District does not anticipate any growth for 2007 – 08 due to the Summer 2007 and 2008 enrollment reporting changes. However, to improve student access and success, the District continues increased efforts in marketing and student recruitment activities. The District has initiated the student success initiatives to improve student outcomes, enhance counseling and other student services to assist students transitioning from high school.

Postretirement Benefits – GASB 45

The GASB in June 2004 issued its final accounting standards for retiree healthcare and other post employment benefits, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, GASB 45. Based on the actuarial study dated February 2007, the best estimate of the present value liability of future benefits using a 6.00% estimated discount rate is approximately \$623 million as of June 30, 2005. The actual discount rate when GASB 45 is adopted may change based on the long-term investment yield. The effective date for implementing GASB 45 for the District is fiscal year 2007 – 08. The District has begun setting aside, annually, an amount equal to a 1.92% of annual salaries, as negotiated with all bargaining units, for permanent employees plus any Medicare refunds into a restricted account in the Post Retirement Health Insurance Fund. A resolution authorizing the transfer of these funds to the recently approved CalPers managed irrevocable trust for postretiree health benefits will be presented to the board of trustees for approval upon completion of an updated actuarial report.

BASIC FINANCIAL STATEMENTS

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Balance Sheets

June 30, 2007 and 2006

Assets	2007	2006
	2007	2006
Current assets:		
Cash and cash equivalents (note 3)	\$ 113,579,225	84,795,445
Short-term investments (note 3)	47,894	47,529
Accounts receivable, net of allowance (note 4)	72,921,870	70,732,452
Student loans receivable, net-current portion (note 4)	396,175	430,883
Deposit with bond trustee	15,375,156	16,857,200
Inventory	9,665,618	8,674,121
Bond issuance cost, net	7,027,602	5,063,786
Prepaid expenses and other assets	1,216,451	5,166,348
	220,229,991	191,767,764
Total current assets		
Noncurrent assets:		
Restricted cash and cash equivalents (note 3)	221,084,361	138,849,377
Restricted investments (note 3)	249,422,590	146,280,032
Student loans receivable, net-noncurrent portion (note 4)	1,094,932	1,074,795
Capital assets (note 6):		
Land	108,663,886	77,829,024
Land improvements	31,286,241	31,286,241
Buildings	440,442,985	398,829,407
Construction in progress	521,889,281	381,708,003
Works of art	518,000	518,000
Machinery and equipment	57,785,829	49,847,515
Infrastructure	3,599,474	3,551,795
Accumulated depreciation	(218,601,210)	(204,599,471)
	945,584,486	738,970,514
Capital assets, net		
Total assets	\$ 1,637,416,360	1,216,942,482

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Balance Sheets

June 30, 2007 and 2006

Liabilities and Net Assets	2007	2006
	<hr/>	<hr/>
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 98,647,599	72,348,015
Deferred revenue	6,436,647	6,390,510
Compensated absences (note 10)	6,702,102	4,717,155
General liability (note 10)	1,275,011	706,918
Workers' compensation (note 10)	4,128,262	4,039,734
Other accrued liabilities	3,399,770	3,719,127
Amounts held in trust for others	558,336	494,105
Revenue bonds payable – current (note 10)	406,653	406,653
Long-term debt – current (note 10)	41,462,422	41,465,182
Capital leases – current (note 10)	1,564,453	1,080,067
	<hr/>	<hr/>
Total current liabilities	164,581,255	135,367,466
Noncurrent liabilities (note 10):		
Compensated absences	7,212,295	8,225,479
General liability	4,602,219	5,546,082
Workers' compensation	32,951,208	30,436,266
Revenue bonds payable	1,219,958	1,626,611
Long-term debt	1,001,146,007	669,905,174
Capital leases	3,504,780	1,200,808
	<hr/>	<hr/>
Total noncurrent liabilities	1,050,636,467	716,940,420
Total liabilities	<hr/>	<hr/>
	1,215,217,722	852,307,886
Net assets:		
Invested in capital assets, net of related debt	307,099,178	283,789,661
Restricted for:		
Expendable:		
Scholarships and loans	7,817,192	8,108,760
Other special purposes	34,483,313	21,150,784
Unrestricted	72,798,955	51,585,391
	<hr/>	<hr/>
Total net assets	422,198,638	364,634,596
Total liabilities and net assets	<hr/>	<hr/>
	\$ 1,637,416,360	1,216,942,482

LOS ANGELES COMMUNITY COLLEGE DISTRICT
Statements of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2007 and 2006

	2007	2006
Operating revenues:		
Tuition and fees (gross)	\$ 65,531,215	70,078,108
Less scholarship discounts and allowances	(26,927,320)	(31,889,910)
Net tuition and fees	38,603,895	38,188,198
Grants and contracts, noncapital:		
Federal	88,345,011	90,886,198
State	40,987,911	36,840,787
Local	11,066,564	11,498,172
Auxiliary enterprise sales and charges	33,827,358	31,659,271
Total operating revenues	212,830,739	209,072,626
Operating expenses:		
Salaries	384,346,738	357,508,134
Employee benefits	115,326,994	103,531,517
Supplies, materials, and other operating expenses and services	233,680,155	205,737,409
Utilities	7,888,940	8,574,717
Depreciation	14,513,735	13,177,571
Total operating expenses	755,756,562	688,529,348
Operating loss	(542,925,823)	(479,456,722)
Nonoperating revenues (expenses):		
State apportionments, noncapital	355,039,118	299,591,511
Local property taxes	124,292,391	116,207,292
State taxes and other revenue	1,307,052	1,416,659
Local tax for G.O. Bonds	61,899,477	75,728,898
Investment income – noncapital	4,322,632	2,283,298
Investment income – capital	25,969,767	20,602,222
Interest expense on capital asset-related debt	(24,198,111)	(24,416,495)
Other nonoperating revenue	38,051,893	20,123,651
Other nonoperating expense	(1,736,484)	(2,063,626)
Total nonoperating revenues	584,947,735	509,473,410
Income before other revenues, expenses, gains, or losses	42,021,912	30,016,688
State apportionments, capital	10,323,197	11,744,106
Gifts and grants, capital	4,766,261	2,324,130
Local property taxes and revenues, capital	452,672	405,933
Increase in net assets	57,564,042	44,490,857
Net assets:		
Beginning of year	364,634,596	320,143,739
End of year	\$ 422,198,638	364,634,596

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Statements of Cash Flows

Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Tuition and fees	\$ 38,468,665	38,272,786
Grants and contracts	144,969,116	133,499,370
Payments to suppliers	(238,416,907)	(193,780,923)
Payments for utilities	(7,888,940)	(8,574,717)
Payments to employees	(383,927,536)	(357,508,134)
Payments for benefits	(111,303,656)	(105,328,915)
Bookstore and cafeteria sales	33,066,634	31,639,793
Other receipts (payments)	2,754,398	(2,579,090)
Net cash used in operating activities	<u>(522,278,226)</u>	<u>(464,359,830)</u>
Cash flows from noncapital financing activities:		
State appropriations	358,165,708	295,163,546
Property taxes	124,292,391	116,207,292
State taxes and other revenues	1,307,052	1,416,659
Other receipts	31,526,361	17,963,724
Net cash provided by noncapital financing activities	<u>515,291,512</u>	<u>430,751,221</u>
Cash flows from capital financing activities:		
Proceeds from capital debt	368,304,722	—
Capital appropriations, local property tax, grant and gift, capital	15,391,166	14,474,169
Local tax for G.O. Bonds	61,899,477	75,728,898
Purchases of capital assets	(220,325,004)	(195,823,334)
Proceeds from capital assets disposal	29,974,680	—
Principal paid on capital debt and leases	(41,238,145)	(45,759,495)
Interest paid on capital debt and leases	(18,896,424)	(31,753,898)
Bond issuance cost	(2,314,141)	—
Deposit with trustee	1,482,043	(549,884)
Net cash provided by (used in) in capital financing activities	<u>194,278,374</u>	<u>(183,683,544)</u>
Cash flows from investing activities:		
Proceeds from sales and maturity of investments	274,895,334	496,604,070
Interest on investments	26,870,027	18,618,068
Purchase of investments	(378,038,257)	(449,107,471)
Net cash provided by (used in) investing activities	<u>(76,272,896)</u>	<u>66,114,667</u>
Net increase (decrease) in cash and cash equivalents	111,018,764	(151,177,486)
Cash and cash equivalents – beginning of the year	<u>223,644,822</u>	<u>374,822,308</u>
Cash and cash equivalents – end of year	\$ <u>334,663,586</u>	<u>223,644,822</u>
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	\$ (542,925,823)	(479,456,722)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	14,513,735	13,177,571
Changes in assets and liabilities:		
Receivables, net	(4,337,050)	(7,854,137)
Inventories	(991,497)	136,660
Other assets	4,060,683	(2,914,438)
Accounts payable	4,411,253	8,507,781
Deferred revenue	46,137	446,354
Deposits held for others	64,231	5,481
General liability	(375,770)	3,161,000
Workers' compensation	2,603,470	(1,003,000)
Compensated absences	971,763	1,234,957
Other liabilities	(319,358)	198,663
Net cash used in operating activities	\$ <u>(522,278,226)</u>	<u>(464,359,830)</u>
Noncash capital financing activity:		
Equipment acquired through new capital lease obligations	\$ 4,114,850	765,666

See accompanying notes to basic financial statements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

(1) Organization and Reporting Entity

The Los Angeles Community College District (the District) is a political subdivision of the State of California and is located within the County of Los Angeles, California (the County). The District's operations consist principally of providing educational services to the local residents of the District. In conjunction with educational services, the District also provides supporting student services such as the operation of campus bookstores and cafeterias. The District consists of nine community colleges located within the County.

For financial reporting purposes, the District includes all funds that are controlled by or dependent on the District's board of trustees. The District's basic financial statements include the financial activities of the District and the combined totals of the trust and agency funds, which primarily represent Associated Student Organizations and various scholarships within the District. Associated Student Organizations are recognized agencies of the District and were organized in accordance with provisions of the California Education Code to control the administration of student funds. The financial affairs of the Associated Student Organizations are administered under the direction of the college financial administrators at the respective colleges, with the supervision and guidance of the District's deputy chancellor.

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

(b) *Financial Reporting*

The basic financial statements required by Governmental Accounting Standards Board (GASB) Statement Nos. 34 and 35 include a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The District is considered a special-purpose government under the provisions of GASB Statement No. 35. Accordingly, the District has chosen to present its basic financial statements using the reporting model for special-purpose governments engaged only in business-type activities. This model allows all financial information for the District to be reported in a single column. In accordance with the business-type activities reporting model, the District prepares its statement of cash flows using the direct method. The effect of internal activities between funds or groups of funds has been eliminated from these basic financial statements. The District's operating revenue includes tuition, fees, and federal and state revenues. Operating costs include cost of services as well as materials, contracts, personnel, and depreciation.

(c) *Cash and Cash Equivalents*

The District participates in the common investment pool of the County which is stated at cost, which approximates market value. For purposes of the statement of cash flows, the District considers all cash and investments pooled with the County plus any other cash deposits or investments with initial maturities of three months or less to be cash and cash equivalents.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

(d) Inventory

Bookstore, cafeteria, and supply inventories are recorded at cost on the first-in, first-out basis and expended on the consumption method.

(e) Properties and Depreciation

Properties are carried at cost or at appraised fair market value at the date received in the case of properties acquired by donation and by termination of leases for tenant improvements, less allowance for accumulated depreciation. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets.

Current ranges of useful lives for depreciable assets are as follows:

Land improvements	15 years
Buildings	50 years
Building improvements	20 years
Equipment	3 to 7 years
Vehicles	5 years
Infrastructure	15 years
Leasehold improvements	7 years

The District's capitalization threshold is as follows:

Movable equipment	\$ 5,000 and above
Land, buildings, and infrastructure	50,000 and above

(f) Accrued Employee Benefits

The District has accounted for vacation leave benefits that have been earned as a liability within the balance sheets. Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable.

(g) Deferred Revenue

A majority of the deferred revenue balance represents cash collected in advance for tuition and student fees and will be recognized as revenue in the period in which it is earned.

(h) Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues, and expenses in the accompanying basic financial statements. Actual results could differ from those estimates.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

(i) **Reclassifications**

Certain reclassifications have been made to amounts previously reported to conform to the current year presentation. The changes were primarily related to the reclassification of certain capital asset balances. There was no impact on the previously reported changes in net assets or total net assets of the District.

(3) **Cash and Investments**

Cash and investments at June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents in County Treasury	\$ 316,877,721	206,506,810
Cash in banks	<u>17,785,865</u>	<u>17,138,012</u>
Total cash and cash equivalents	<u>334,663,586</u>	<u>223,644,822</u>
Investments:		
Investments in the County Treasury	244,126,440	140,827,066
Other	<u>5,344,044</u>	<u>5,500,495</u>
Total investments	<u>249,470,484</u>	<u>146,327,561</u>
Total cash and investments	\$ <u><u>584,134,070</u></u>	\$ <u><u>369,972,383</u></u>

The California Government Code requires California banks and savings and loan associations to collateralize the District's deposits by pledging government securities as collateral. All deposits with financial institutions must be collateralized in an amount equal to 110% of uninsured deposits. At no time during the year did the value of the collateralized property fall below 110% of uninsured deposits. At June 30, 2007, the District had cash in banks with a carrying value and bank balance of \$14,607,974 and \$18,763,176 respectively. Of the bank balance, \$327,443 was covered by federal depository insurance, of which \$18,435,733 was collateralized with securities held by the pledging financial institution's trust department, but not in the District's name. At June 30, 2006, the District had cash in banks with a carrying value and bank balance of \$17,138,012 and \$24,898,648 respectively. Of the bank balance, \$324,491 was covered by federal depository insurance, of which \$24,574,157 was collateralized with securities held by the pledging financial institution's trust department, but not in the District's name. The difference between the carrying value and the bank balance represents items in transit in the normal course of business and cash on hand.

As provided for by the State of California Education Code, amounts are also deposited by the District in the Los Angeles County Treasurer's Pool for the purpose of increasing interest earnings through County investment activities. At June 30, 2007 and 2006, the District's cash and investments consist primarily of deposits and investments in the Los Angeles County Treasurer's Pool. Statutes authorize the County to invest pooled investments in obligations of the U.S. Treasury, federal agencies, municipalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, negotiable certificates of deposit, floating rate notes, repurchase agreements, and reverse repurchase agreements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

The County Treasurer's pooled investments are managed by the County Treasurer who reports on a monthly basis to the board of supervisors. In addition, the function of the County Treasury Oversight Committee is to review and monitor the County's investment policy. The committee membership includes the Treasurer and Tax Collector, the Auditor-Controller, Superintendent of Schools, Chief Administrative Officer, and a non-County representative. Investments held by the County Treasurer are stated at fair value, except for certain nonnegotiable securities that are reported at cost because the effect of valuating the nonnegotiable securities at cost rather than fair market value is immaterial to the District's financial position. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of each participant's position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawals. At June 30, 2007 and 2006, the District had \$561,004,160 and \$347,333,876 invested in the County Treasurer's Pool, respectively.

The County Treasurer manages equity and mitigates exposure to declines in fair value by generally investing in short-term investments with maturities of 6 months or less and by holding investments to maturity. The County's investment guidelines limit the weighted average maturity of its portfolios to less than 18 months. The weighted average maturity of cash and investments in the Treasurer's Pool was 1.49 and 0.74 years at June 30, 2007 and 2006, respectively. The Los Angeles County Treasurer's Pool does not maintain a credit rating.

(4) Accounts, Notes, and Other Receivables

Accounts, notes, and other receivables at June 30, 2007 and 2006 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Tax delinquencies	\$ 18,939,177	21,399,836
Federal and state programs	19,520,582	15,929,041
State lottery	7,754,806	3,081,711
Interest receivable	3,697,016	2,787,654
Accounts receivable – principal apportionment	28,850,957	37,664,205
Accounts receivable – campus students	4,437,625	2,167,081
Accounts receivable – NDSL/Perkins	3,874,292	3,970,881
Other	8,660,884	8,603,400
Less allowance for doubtful accounts	<u>(21,322,362)</u>	<u>(23,365,679)</u>
Total, net	<u>\$ 74,412,977</u>	<u>72,238,130</u>

The allowance for doubtful accounts is maintained at an amount sufficient to reserve the possible uncollectibility of other receivable balances. Tax delinquencies represent prior and current year unpaid/unreceived property taxes that were assessed and billed by the County during the 2006 – 2007 year and prior. The District receives tax revenues from the County biannually in December and April. Any amounts that remain unpaid and not received by the District within 60 days of fiscal year-end are considered delinquent. The County's board of supervisors is the taxing authority that levies and collects tax revenues.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

(5) Accounts Payable and Accrued Liabilities

Accounts payable at June 30, 2007 and 2006 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Vendors payable	\$ 13,180,052	24,829,671
Capital Outlay and Program Management – DMJM	57,708,076	30,468,030
Payroll accrual	11,730,114	4,412,979
Grants	10,566,785	7,278,080
Principal apportionment	—	4,556,342
L.A. Sheriff's Department	1,400,000	715,000
Financial aid payable	83,501	87,913
Election expense payable	3,979,071	—
Total	<u>\$ 98,647,599</u>	<u>72,348,015</u>

(6) Capital Assets

A summary of changes in capital assets follows:

	<u>2007</u>				
	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance at June 30, 2007</u>
Capital assets not being depreciated:					
Land	\$ 77,829,024	7,815,563	(25,023,470)	48,042,769	108,663,886
Construction in process	381,708,003	230,455,633	(909,700)	(89,364,655)	521,889,281
Works of art	518,000	—	—	—	518,000
Total capital assets not being depreciated	<u>460,055,027</u>	<u>238,271,196</u>	<u>(25,933,170)</u>	<u>(41,321,886)</u>	<u>631,071,167</u>
Capital assets being depreciated:					
Land improvements	31,286,241	—	—	—	31,286,241
Buildings	398,829,407	868,203	—	40,745,375	440,442,985
Equipment	49,847,515	7,984,585	(622,782)	576,511	57,785,829
Infrastructure	3,551,795	47,679	—	—	3,599,474
Total capital assets being depreciated	<u>483,514,958</u>	<u>8,900,467</u>	<u>(622,782)</u>	<u>41,321,886</u>	<u>533,114,529</u>
Total costs	943,569,985	247,171,663	(26,555,952)	—	1,164,185,696
Less accumulated depreciation	<u>(204,599,471)</u>	<u>(14,513,735)</u>	511,996	—	<u>(218,601,210)</u>
Total	<u>\$ 738,970,514</u>	<u>232,657,928</u>	<u>(26,043,956)</u>	<u>—</u>	<u>945,584,486</u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

	2006				Balance at June 30, 2006
	Balance at July 1, 2005	Additions	Disposals	Transfers	
Capital assets not being depreciated:					
Land	\$ 45,483,706	32,345,318	—	—	77,829,024
Construction in process	215,290,697	194,480,978	(3,066,354)	(24,997,318)	381,708,003
Works of art	518,000	—	—	—	518,000
Total capital assets not being depreciated	<u>261,292,403</u>	<u>226,826,296</u>	<u>(3,066,354)</u>	<u>(24,997,318)</u>	<u>460,055,027</u>
Capital assets being depreciated:					
Land improvements	31,286,241	—	—	—	31,286,241
Buildings	374,562,510	44,700	(143,217)	24,365,414	398,829,407
Equipment	45,492,076	3,723,535	—	631,904	49,847,515
Infrastructure	2,895,800	655,995	—	—	3,551,795
Total capital assets being depreciated	<u>454,236,627</u>	<u>4,424,230</u>	<u>(143,217)</u>	<u>24,997,318</u>	<u>483,514,958</u>
Total costs	715,529,030	231,250,526	(3,209,571)	—	943,569,985
Less accumulated depreciation	<u>(191,424,769)</u>	<u>(13,177,571)</u>	<u>2,869</u>	<u>—</u>	<u>(204,599,471)</u>
Total	<u>\$ 524,104,261</u>	<u>218,072,955</u>	<u>(3,206,702)</u>	<u>—</u>	<u>738,970,514</u>

(7) Lease Commitments

The District leases various assets, as lessee, under operating and capital lease agreements. Lease payments under these leases (including month-to-month leases) approximating \$2,582,457 have been charged as expenses in the accompanying statement of revenues, expenditures, and changes in net assets.

At June 30, 2007, minimum lease commitments under long-term lease contracts were as follows:

Year ending June 30:	
2008	\$ 2,767,850
2009	2,132,192
2010	1,047,063
2011	925,497
2012	670,032
2015 – 2019	—
Total	<u>\$ 7,542,634</u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

(8) Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the state of California. Certificated employees are members of the State Teachers' Retirement System, and classified employees are members of the Public Employees' Retirement System. In addition, employees not participating in the State Teachers' Retirement System or the Public Employees' Retirement System may participate in the Public Agency Retirement System, which is a defined contribution plan. On September 2, 2003, the District offered to its employees the Cash Balance Plan to every part-time faculty member who is not a mandatory CalSTRS Defined Benefit Program member.

(a) *Plan Descriptions and Provisions*

State Teachers' Retirement System (STRS) – All full-time certificated employees participate in the STRS, a cost-sharing multiple-employer contributory public employee retirement system defined benefit pension plan. An actuarial valuation by employer is not available. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Employees attaining the age of 60 with 5 years of credited California service (service) are eligible for normal retirement and are entitled to a monthly benefit of 2% of their final compensation for each year of service. Final compensation is defined as the highest average salary earned during 3 consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with 30 years of service. Disability benefits of up to 90% of final compensation are available to members with 5 years of service. A family benefit is available if the deceased member had at least one year of service and was an active member or on disability leave. After 5 years of credited service, members become 100% vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

Benefit provisions for STRS are established by the State Teachers' Retirement Law (Part 13 of the California Education Code, Section 22000 et seq.). STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the annual financial report may be obtained from the STRS Executive Office.

California Public Employees' Retirement System (PERS) – All full-time classified employees participate in the PERS, an agent multiple-employer contributory public employee retirement system defined benefit pension plan that acts as a common investment and administrative agent for participating public entities within the state of California. The District is part of a cost-sharing pool within PERS. An actuarial valuation by employer is not available. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each.

Employees are eligible for retirement at the age of 50 and are entitled to a monthly benefit of 1.1% of final compensation for each year of service credit. The rate is increased if retirement is deferred beyond the age of 50, up to age 63. Retirement compensation is reduced if the plan is coordinated with Social Security.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest through the date of separation.

Benefit provisions for PERS are established by the Public Employees' Retirement Law (Part 3 of the California Government Code, Section. 20000 et seq.). PERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the annual financial report may be obtained from the PERS Executive Office.

State Teachers' Retirement System (STRS) – Defined Benefit and Cash Balance Benefit Program

On September 2, 2003, the District offered to its employees the Cash Balance Plan to every part-time faculty member who is not a mandatory CalSTRS Defined Benefit Program member the option of participating in one of the following three retirement plans; CalSTRS Cash Balance Benefit Program, the CalSTRS Defined Benefit Program, or the Public Agency Retirement System (PARS).

Public Agency Retirement System – Alternate Retirement System (PARS – ARS)

The Omnibus Budget Reconciliation Act of 1990 (Section 11332) extends the Social Security tax to state and local government employees not participating in a qualified public retirement system. Internal Revenue Code 3121 (b)(7)(F) proposed regulations allow employers to establish an alternative retirement system in lieu of Social Security taxes. Such an alternative system was authorized on June 26, 1991 to be established by the end of calendar year 1991 for certain employees not participating in STRS or PERS.

On December 4, 1991, the District's board of trustees adopted PARS, a defined contribution plan qualifying under Sections 401 (a) and 501 of the Internal Revenue Code, effective January 1, 1992, for the benefit of employees not participating in STRS or PERS who were employed on that date or hired thereafter. The District has appointed Phase 11 Systems, in which Imperial Trust Company serves as the trustee, to manage the assets of the PARS plan and serve as the Trust Administrator.

Total contributions to PARS are 7.50%. The employer contribution is 4.00% and the employee contribution is 3.50%. Contributions are vested 100.00% for employees. Employees can receive benefits when they retire at age 60, become disabled, terminate employment, or die.

(b) *Contributions Required and Contributions Made*

For fiscal year 2006 – 07, the District is required by statute to contribute 8.25%, 9.124%, 4.25%, and 4.00% of gross salary expenditures to STRS, PERS (pooled), Cash Balance, and PARS, respectively. Participants are required to contribute 8.00%, 7.00%, 3.75%, and 3.50% of gross salary to STRS, PERS, Cash Balance, and PARS, respectively.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

The District's contributions for the years ended June 30, 2007, 2006, and 2005 are as follows:

	<u>Contributions</u>	<u>Percentage of required contributions</u>
STRS:		
2007	\$ 16,354,399	100%
2006	14,989,011	100
2005	14,144,048	100
PERS:		
2007	\$ 10,612,625	100%
2006	9,536,500	100
2005	10,167,471	100
Cash Balance STRS:		
2007	\$ 1,883,785	100%
2006	1,188,665	100
2005	829,302	100
PARS:		
2007	\$ 555,477	100%
2006	419,032	100
2005	683,899	100

The District's contribution represented 0.61% of the total contributions required of all participating employers in STRS, PERS, Cash Balance, and PARS. The District's employer contributions to STRS, PERS, Cash Balance, and PARS met the required contribution rate established by law.

(c) Postretirement Benefits

The District provides postretirement health benefits to its retirees who meet plan eligibility requirements. Substantially all retirees of the District may become eligible for those benefits if they reach the appropriate eligibility requirements for retirement while working for the District. The retirement eligibility for PERS' retirees is a minimum age of 50 and minimum years of service of 5. The retirement eligibility for STRS retirees is a minimum age of 55 and minimum years of service of 5 or a minimum age of 50 with 30 years of service. In addition, the District also has minimum continuous service requirements for retirement that range from 7 years to 20 years, which vary by employee class. The District's expenses for postretirement health benefits are recognized when paid. During the fiscal years ended June 30, 2007 and 2006, expenses of \$24,224,270 and \$23,558,876, respectively, were recognized for postretirement health benefits.

(d) Postretirement Benefits – GASB 45 (Unaudited)

The GASB in June 2004 issued its final accounting standards for retiree healthcare and other post employment benefits, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, GASB No. 45. Based on the actuarial study done February 2007, the best estimate of the present value liability of future benefits using a 6.00% estimated discount rate is

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

approximately \$623 million at June 30, 2005. The actual discount rate when GASB 45 is adopted may change based on the long-term investment yield. The effective date for implementing GASB No. 45 is fiscal year 2007 – 08. The District has begun setting aside the annual prefunding amount equal to a 1.92% of annual salaries, as negotiated with all bargaining units, for permanent employees plus any Medicare refunds into the Post Retirement Health Benefits Fund. A resolution authorizing the transfer of these funds to the recently approved CalPers managed irrevocable trust of postretiree health benefits will be presented to the board of trustees for approval upon completion of an updated actuarial report.

(9) Commitments and Contingencies

The District receives a substantial portion of its total revenues under various governmental grants, all of which pay the District based on reimbursable costs as defined by each grant. Reimbursement recorded under these grants is subject to audit by the grantors. Management believes that no material adjustments will result from the subsequent audit of costs reflected in the accompanying basic financial statements.

The District is a defendant in various lawsuits at June 30, 2007. Although the outcome of these lawsuits is not presently determinable, in the opinion of management, based in part on the advice of counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District or is adequately covered by insurance.

The District has entered into various contracts for the construction of facilities throughout the campuses. At June 30, 2007 and 2006, the total value of these contracts to be paid over the course of two years approximated \$806,240,564 and \$847,974,475, respectively.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

(10) Long-Term Liabilities

The following is a summary of long-term liabilities of the District for the years ended June 30, 2007 and 2006:

	Balance at July 1, 2006	Additions	Deletions	Balance at June 30, 2007	Due within one year
General Obligation Bonds, 2001 Series A	\$ 44,890,000	—	(4,630,000)	40,260,000	5,670,000
General Obligation Bonds, 2003 Series A, B, and C	116,305,000	—	(34,305,000)	82,000,000	2,455,000
General Obligation Bonds, 2004 Series A and B	103,900,000	—	—	103,900,000	2,665,000
General Obligation Bonds, 2005 Series A	434,110,000	—	(570,000)	433,540,000	590,000
General Obligation Bonds, 2006 Series E	—	350,000,000	—	350,000,000	27,500,000
Unamortized premiums bond	37,334,777	18,304,722	(2,513,010)	53,126,489	2,582,422
Deferred amount on Refunding Revenue bonds	(25,169,421)	—	4,951,361	(20,218,060)	—
Workers' compensation claims payable	2,033,264	—	(406,653)	1,626,611	406,653
General liability	34,476,000	6,731,732	(4,128,262)	37,079,470	4,128,262
Vacation benefits payable	6,253,000	899,241	(1,275,011)	5,877,230	1,275,011
Capital lease obligations	12,942,634	7,673,865	(6,702,102)	13,914,397	6,702,102
	2,280,875	4,114,850	(1,326,493)	5,069,232	1,564,453
Total	\$ 769,356,129	387,724,410	(50,905,170)	1,106,175,369	55,538,903

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006	Due within one year
General Obligation Bonds, 2001 Series A	\$ 48,545,000	—	(3,655,000)	44,890,000	4,630,000
General Obligation Bonds, 2003 Series A, B, and C	153,285,000	—	(36,980,000)	116,305,000	34,305,000
General Obligation Bonds, 2004 Series A and B	103,900,000	—	—	103,900,000	—
General Obligation Bonds, 2005 Series A	437,450,000	—	(3,340,000)	434,110,000	570,000
Unamortized premiums bond	40,558,463	—	(3,223,686)	37,334,777	1,960,182
Deferred amount on Refunding Revenue bonds	(30,120,783)	—	4,951,362	(25,169,421)	—
Workers' compensation claims payable	2,439,917	—	(406,653)	2,033,264	406,653
General liability	35,479,000	3,036,734	(4,039,734)	34,476,000	4,039,734
Vacation benefits payable	3,092,000	3,867,918	(706,918)	6,253,000	706,918
Capital lease obligations	11,707,677	5,952,112	(4,717,155)	12,942,634	4,717,155
	2,893,051	765,666	(1,377,842)	2,280,875	1,080,067
Total	\$ 809,229,325	13,622,430	(53,495,626)	769,356,129	52,415,709

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

(a) General Obligation Bonds

On April 10, 2001, the voters of the County of Los Angeles passed Proposition A, a \$1.2 billion General Obligation Bond measure.

On June 7, 2001, the District issued the 2001 Series A General Obligation Bonds (Prop A) in the amount of \$525,000,000 with an average interest rate of 4.63% maturing in 2012. The proceeds of this first series of general obligation bonds are to be used to finance the construction, equipping, and improvement of college and support facilities at nine colleges.

Debt service requirements to maturity of the General Obligation Bonds at June 30, 2007 are as follows:

	2001 Series A		
	Principal	Interest	Total
Year ending June 30:			
2008	\$ 5,670,000	1,522,806	7,192,806
2009	6,775,000	1,271,165	8,046,165
2010	7,980,000	966,237	8,946,237
2011	9,245,000	621,737	9,866,737
2012	10,590,000	218,419	10,808,419
Total	\$ 40,260,000	4,600,364	44,860,364

On May 20, 2003, the voters of the County passed Proposition AA, a \$980 million General Obligation Bond measure.

On July 29, 2003, the District issued the 2003 Series A, B, and C General Obligation Bonds (Prop AA) in the amount of \$189,685,000, with various interest rates ranging from 2% to 5% maturing in 2028. The bond measure was designed to finance and refinance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District and refinance other outstanding debts of the District and colleges.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

Debt service requirements to maturity of the General Obligation Bonds at June 30, 2007 are as follows:

	2003 Series A, B, and C		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2008	\$ 2,455,000	3,871,265	6,326,265
2009	2,505,000	3,795,388	6,300,388
2010	2,605,000	3,709,469	6,314,469
2011	2,675,000	3,606,775	6,281,775
2012	2,810,000	3,469,650	6,279,650
2013 – 2017	16,170,000	15,197,438	31,367,438
2018 – 2022	20,535,000	10,701,000	31,236,000
2023 – 2027	26,195,000	4,905,412	31,100,412
2028	6,050,000	151,250	6,201,250
Total	<u>\$ 82,000,000</u>	<u>49,407,647</u>	<u>131,407,647</u>

On October 12, 2004, the District issued the 2004 Series A and B General Obligation Bonds (Prop A & AA) in the amount of \$103,900,000 with various interest rates ranging from 3.17% to 6.44% maturing in 2030. The bond measure was designed to finance and refinance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District and refinance other outstanding debts of the District and colleges.

Debt service requirements to maturity of the General Obligation Bonds at June 30, 2007 are as follows:

	2004 Series A and B		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2008	\$ 2,665,000	5,203,562	7,868,562
2009	2,745,000	5,112,873	7,857,873
2010	2,845,000	5,010,369	7,855,369
2011	2,950,000	4,897,462	7,847,462
2012	3,070,000	4,774,293	7,844,293
2013 – 2017	17,500,000	21,644,819	39,144,819
2018 – 2022	22,150,000	16,814,475	38,964,475
2023 – 2027	28,700,000	10,061,211	38,761,211
2028 – 2030	21,275,000	1,852,167	23,127,167
Total	<u>\$ 103,900,000</u>	<u>75,371,231</u>	<u>179,271,231</u>

On March 22, 2005, the District issued the 2005 Series A General Obligation Refunding Bonds (Prop A) in the amount of \$437,450,000 with various interest rates ranging from 3% to 5% maturing in 2026. The bond measure was designed to finance and refinance construction, building acquisition,

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

equipment, and improvement of college and support facilities at the various campuses of the District and refinance other outstanding debts of the District and colleges.

The net proceeds from the sale of the 2005 Series A General Obligation Refunding Bonds in the amount of \$437,450,000 plus the original issue premium of \$34,870,964 will be applied to advance refunding of the refunded bonds of \$456,743,623, to make a deposit into the District's Building Fund of \$12,330,000, to make a deposit into the District's Debt Service Fund of \$220,000, and to pay the cost of issuance for these bonds in the amount of \$3,027,341.

Debt service requirements to maturity of the General Obligation Bonds at June 30, 2007 are as follows:

	2005 Series A		
	Principal	Interest	Total
Year(s) ending June 30:			
2008	\$ 590,000	21,723,088	22,313,088
2009	605,000	21,705,162	22,310,162
2010	625,000	21,686,713	22,311,713
2011	645,000	21,666,857	22,311,857
2012	665,000	21,646,400	22,311,400
2013 – 2017	81,640,000	98,647,148	180,287,148
2018 – 2022	136,695,000	71,382,125	208,077,125
2023 – 2026	212,075,000	27,874,375	239,949,375
Total	\$ <u>433,540,000</u>	<u>306,331,868</u>	<u>739,871,868</u>

On October 10, 2006, the District issued the 2006 Series E General Obligation Bonds (Prop AA) in the amount of \$350,000,000 with various interest rates ranging from 3.4% to 5.0% maturing in 2032. The bond measure was designed to finance and refinance construction, building acquisition, equipment, and improvement of college and support facilities at the various campuses of the District and refinance other outstanding debts of the District and colleges.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

Debt service requirements to maturity of the General Obligation Bonds at June 30, 2007 are as follows:

	2006 Series E		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2008	\$ 27,500,000	15,905,969	43,405,969
2009	14,000,000	15,033,199	29,033,199
2010	7,875,000	14,634,354	22,509,354
2011	8,145,000	14,345,964	22,490,964
2012	8,430,000	14,040,274	22,470,274
2013 – 2017	49,120,000	64,319,200	113,439,200
2018 – 2022	60,160,000	51,505,500	111,665,500
2023 – 2027	76,780,000	34,469,250	111,249,250
2028 – 2032	97,990,000	12,726,500	110,716,500
Total	<u>\$ 350,000,000</u>	<u>236,980,210</u>	<u>586,980,210</u>

(b) Advance Refunding Bonds

The District issued \$437,450,000 of 2005 Series A, aggregate principal amount of its General Obligation Refunding Bonds, 2001 Election to advance refunding of the District's General Obligation Bonds, 2001 Election, Series A (Refunded Bonds). The Refunded Bonds were issued June 20, 2001, pursuant to an authorization approved by more than 55% of the voters voting at an election held within the District on April 10, 2001.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of \$30,120,783. This difference, reported in the accompanying basic financial statements as a deferred amount on refunding, is being charged to interest expense through June 1, 2026, the final maturity dates of the Refunded Bonds using the straight-line method. The District completed the advance refunding to reduce its total debt service payments over the next 21 years by \$13,711,449 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,871,827.

(c) Revenue Bonds

On March 1, 1995, the District entered into the contract with the State of California, State Public Works Board, for participation in the sale of Energy and Water Efficiency Revenue Bonds Phase IV, Series 1995A, for funding of energy conservation design and construction projects at Los Angeles Pierce College in the amount of \$4,063,000. Until the termination date on October 1, 2010, the amount of \$285,000 will be withheld from the District's apportionment payments in order to satisfy the District's annual energy service contract obligation due on August 15 each year. At June 30, 2007 and 2006, \$1,140,000 and \$1,425,000 were outstanding, respectively.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

On June 1, 1996, the District entered into the contract with the State of California, State Public Works Board, for participation in the sale of Energy and Water Efficiency Revenue Bonds Phase V, Series 1996 A, for funding of energy conservation design and construction projects at Los Angeles Southwest College in the amount of \$1,581,488. Until the termination date on August 1, 2010, the amount of \$121,653 will be withheld from the District's apportionment payments in order to satisfy the District's annual energy service contract obligation due on August 15 each year. At June 30, 2007 and 2006, the outstanding balance was \$486,611 and \$608,264, respectively.

Debt service requirements to maturity of the revenue bonds at June 30, 2007 are as follows:

	Revenue bonds		
	Principal	Interest	Total
Year ending June 30:			
2008	\$ 406,653	—	406,653
2009	406,653	—	406,653
2010	406,653	—	406,653
2011	406,652	—	406,652
Total	\$ 1,626,611	—	1,626,611

(d) Lease Purchase Financing

Debt service requirements to maturity of the lease purchase financing transactions at June 30, 2007 are as follows:

	Lease purchase financing		
	Principal	Interest	Total
Year ending June 30:			
2008	\$ 1,564,453	328,315	1,892,768
2009	1,109,914	228,589	1,338,503
2010	900,836	146,227	1,047,063
2011	844,455	81,042	925,497
2012	649,574	20,458	670,032
Total	\$ 5,069,232	804,631	5,873,863

(11) Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is self-insured for up to a maximum of \$750,000 for each workers' compensation claim, \$1,000,000 per employment practices claims, and \$500,000 for each general liability claim.

The District currently reports all of its risk management activities in the balance sheets. The balance of all outstanding workers' compensation and incurred general liability claims is estimated based on information provided by an outside actuarial study performed in 2006. The amount of the outstanding liability at

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

June 30, 2007 and 2006 includes estimates of future claim payments for known cases as well as provisions for incurred but not reported claims and adverse development on known cases, which occurred through that date.

Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment yield assumption at 1.5%.

Changes in the balances of workers' compensation and general liability claims during fiscal years ended June 30, 2007 and 2006 were as follows:

	<u>Balance at July 1, 2006</u>	<u>Current year claims and changes in estimates</u>	<u>Claim payments</u>	<u>Balance at June 30, 2007</u>
Workers' compensation	\$ 34,476,000	6,731,732	(4,128,262)	37,079,470
General liability	6,253,000	899,241	(1,275,011)	5,877,230

	<u>Balance at July 1, 2005</u>	<u>Current year claims and changes in estimates</u>	<u>Claim payments</u>	<u>Balance at June 30, 2006</u>
Workers' compensation	\$ 35,479,000	3,036,734	(4,039,734)	34,476,000
General liability	3,092,000	3,867,918	(706,918)	6,253,000

During the years ended June 30, 2007 and 2006, the District made total premium payments of approximately \$1,529,723 and \$1,365,827, respectively, for general liability and property claims.

(12) Subsequent Events

On October 23, 2007, the District issued \$400,000,000 aggregate principal amount in General Obligation Bonds, 2001 Election (Proposition A) 2007 Series A with various interest rates ranging from 4% to 5% maturing in 2033. The proceeds of this sixth series of General Obligation Bonds are to be used to finance the construction, equipping and improving of college and support facilities at nine colleges.

On October 30, 2007 the District purchased land for Mission College in the amount of \$8,975,000 from Proposition AA.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

(13) Supplementary Information – Local Tax Assessment and Valuation (Unaudited)

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property, which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIII A of the California Constitution. (See constitutional and statutory limitations on taxes and appropriations.)

The California state-reimbursed exemption currently provides a credit of \$7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from state sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies.

In addition, certain classes of property such as churches, colleges, not-for-profit hospitals, and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the state for such exemptions.

Summary of Assessed Valuations

Fiscal years 2002-03 through 2006-07

<u>Fiscal year</u>	<u>Local secured</u>	<u>Utilities</u>	<u>Unsecured</u>	<u>Total before redevelopment</u>	<u>Total after redevelopment</u>
2002-03	\$ 331,732,106,353	479,791,023	25,821,193,010	358,033,090,386	331,113,645,710
2003-04	357,678,671,379	489,141,868	25,293,229,310	383,461,042,557	355,170,843,908
2004-05	386,483,327,672	481,361,281	24,891,908,667	411,856,597,620	383,631,546,830
2005-06	424,936,577,595	438,294,291	25,212,393,251	450,587,265,137	413,667,345,171
2006-07	471,972,620,397	384,707,093	25,121,583,359	471,587,913,304	428,404,996,446

Source: California Municipal Statistics, Inc.

Secured Tax Charges and Delinquencies

For the District's Existing Debt Service Levy⁽¹⁾

	<u>Secured tax charge</u>	<u>Amount delinquent June 30</u>	<u>Percentage delinquent June 30</u>
2002-03	\$ 48,324,282	1,356,579	2.81%
2003-04	99,367,349	2,180,522	2.19
2004-05	107,524,287	2,528,799	2.35
2005-06	117,758,299	3,038,347	2.58
2006-07	128,497,217	4,851,301	3.78

Source: California Municipal Statistics, Inc.

⁽¹⁾ The delinquency levels for the basic (1% of assessed valuation) levy within the District is slightly lower than the rates shown in the table.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

Major Taxpayers and Concentration

The following chart lists the 20 largest property taxpayers located within the boundaries of the District, which together hold property valued at less than 3% of the Assessed Valuation for the District as a whole.

2006-07 Largest Local Secured Taxpayers

	Property owner	Primary land use	2006-07 Assessed valuation	Percentage of total ⁽¹⁾
1.	Douglas Emmett Realty Funds	Office building	\$ 2,362,525,243	0.50%
2.	Arden Realty Finance Partnership LP	Office building	1,341,587,844	0.28
3.	Universal Studios Inc.	Motion picture studio	1,337,429,891	0.28
4.	Anheuser Busch Inc.	Industrial	826,130,916	0.18
5.	Maguire Partners, 355 S. Grand LLC	Office building	544,749,668	0.12
6.	One Hundred Towers LLC	Office building	543,860,949	0.12
7.	Duesenberg Investment Company	Office building	529,099,443	0.11
8.	Trizec 333 LA LLC	Office building	422,268,780	0.09
9.	Casden Park La Brea LLC	Apartments	381,729,612	0.08
10.	Paramount Pictures Corp.	Industrial	369,428,644	0.08
11.	Trizec 601 Figueroa LLC	Office building	365,350,000	0.08
12.	Reef America Reit II Corp	Office building	355,000,000	0.07
13.	Twentieth Century Fox Film Corp.	Motion picture studio	343,965,462	0.07
14.	1999 Stars LLC	Office building	328,421,915	0.07
15.	Century City Mall LLC	Shopping center	325,890,378	0.06
16.	Library Square Associates LLC	Office building	294,949,089	0.06
17.	515 555 Flower Associates LLC	Office building	289,212,549	0.06
18.	Sunstone Century Star LLC	Hotel	283,250,000	0.06
19.	2121 Avenue of the Stars LLC	Office building	276,500,000	0.06
20.	Maguire Partners, 555 W. Fifth LLC	Office building	270,785,099	0.06
			<u>\$ 11,792,135,482</u>	<u>2.54%</u>

Source: California Municipal Statistics, Inc.

⁽¹⁾ 2006-07 local secured assessed valuation was \$471,587,913,304

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Basic Financial Statements

June 30, 2007 and 2006

Tax Rates

The following table sets forth typical tax rates for property within the District for fiscal years 2002 – 03 through 2006 – 07:

Historical Tax Rates

Typical tax rate per \$100 of assessed valuation (TRA 0067)

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Countywide 1%	\$ 1.000000	1.000000	1.000000	1.000000	1.000000
City of Los Angeles	0.042312	0.050574	0.055733	0.051289	0.045354
Los Angeles Unified School District	0.036973	0.077145	0.088839	0.084346	0.106814
Los Angeles Community College District	0.014598	0.019857	0.018098	0.014288	0.021462
County of Los Angeles	0.001033	0.000992	0.000923	0.000795	0.000663
Los Angeles County Floor Control District	0.000881	0.000462	0.000245	0.000049	0.000520
Metropolitan Water District	<u>0.006700</u>	<u>0.006100</u>	<u>0.005800</u>	<u>0.005200</u>	<u>0.004700</u>
Total	\$ <u>1.102497</u>	<u>1.155130</u>	<u>1.169638</u>	<u>1.155967</u>	<u>1.179045</u>

Source: California Municipal Statistics, Inc.

SUPPLEMENTAL FINANCIAL INFORMATION

LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Balance Sheet

June 30, 2007

Assets

Cash in County Treasury	\$ 44,614,412
Cash in banks	6,600,958
Cash in revolving fund	162,439
Investments	47,894
Accounts, notes, interest, and loans receivable, net	56,938,865
Due from other funds	12,112,774
Prepaid expenses and other assets	<u>1,216,451</u>
Total assets	<u><u>\$ 121,693,793</u></u>

Liabilities and Fund Equity

Liabilities:

Accounts payable	\$ 37,221,950
Due to other funds	2,555,050
Amounts held in trusts	558,336
Deferred revenue	<u>6,425,438</u>
Total liabilities	<u>46,760,774</u>

Fund equity

Restricted	17,585,206
Unrestricted	<u>57,347,813</u>
Total fund equity	<u>74,933,019</u>

Total liabilities and fund equity	<u><u>\$ 121,693,793</u></u>
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See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2007

Revenues:

Federal revenues:

Higher Education Acts	\$ 8,326,045
Job Training Partnership Act	1,309,230
Temporary Assistance for Needy Families (TANF)	953,075
Vocational Education Act	4,904,528
Veterans' Education	8,864
College Work Study	1,934,249
Seog	105,885
Pell (Beog)	122,519
Other	<u>3,232,227</u>
Total federal revenues	<u>20,896,622</u>

State revenues:

State apportionments	342,084,410
Tax relief subvention	1,307,052
State lottery	12,954,708
CA Works Oppor. & Responsibility to Kids	5,119,079
Extended Opportunity Program	7,022,810
Matriculation Program	7,693,010
Instructional Equipment/Modem Technology	4,766,261
Disabled Students Programs and Services	6,127,556
Telecommunication and Technology	433,217
Other	<u>25,056,829</u>
Total state revenues	<u>412,564,932</u>

Local revenues:

Local property taxes	124,292,391
Rental and lease income	—
Enrollment fees	19,173,168
Tuition and fees, net of scholarship discounts and allowance	8,311,234
Community service fees	5,677,086
Parking fees	1,958,198
Health service fees	2,332,493
Student fees and charges	1,425,529
Interest	3,882,053
Other	<u>10,498,475</u>
Total local revenues	<u>177,550,627</u>
Total revenues	<u>611,012,181</u>

Expenditures:

Current:

Academic salaries	236,742,060
Classified salaries	133,127,243
Employee benefits	106,477,407
Books and supplies	12,882,346
Contract services, student grants, and other operating expenditures	58,398,882
Capital outlay and equipment replacement:	15,254,328
Other	<u>809,991</u>
Total expenditures	<u>563,692,257</u>

Excess of revenues over expenditures: 47,319,924

Other financing uses:

Operating transfers out	<u>(19,187,239)</u>
Net increase in fund balance	28,132,685

Fund balances at July 1, 2006 46,800,334

Fund balances at June 30, 2007 \$ 74,933,019

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds
Combined Balance Sheet

June 30, 2007

Assets	Special Reserve Fund	Child Development Fund	Bookstore Fund	Cafeteria Fund	Total
Cash in County Treasury	\$ 69,896,403	1,875,375	—	—	71,771,778
Cash in banks	—	79,748	2,215,811	416,529	2,712,088
Cash in Revolving Fund	—	165	203,943	7,643	211,751
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts	4,504,505	2,111,485	2,483,606	292,460	9,392,056
Due from other funds	144,547	1,249,203	697,073	465,199	2,556,022
Inventory	—	—	9,560,231	105,387	9,665,618
Total assets	<u>\$ 74,545,455</u>	<u>5,315,976</u>	<u>15,160,664</u>	<u>1,287,218</u>	<u>96,309,313</u>
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ 883,968	310,777	28,886	26,901	1,250,532
Due to other funds	1,339,248	4,906,711	4,687,218	1,183,439	12,116,616
Deferred revenue	—	—	2,328	—	2,328
Total liabilities	<u>2,223,216</u>	<u>5,217,488</u>	<u>4,718,432</u>	<u>1,210,340</u>	<u>13,369,476</u>
Fund equity:					
Capital projects	72,322,239	—	—	—	72,322,239
Unrestricted	—	98,488	3,032,219	76,878	3,207,585
Reserve for facility improvements and inventory	—	—	7,410,013	—	7,410,013
Total fund equity	<u>72,322,239</u>	<u>98,488</u>	<u>10,442,232</u>	<u>76,878</u>	<u>82,939,837</u>
Total liabilities and fund equity	<u>\$ 74,545,455</u>	<u>5,315,976</u>	<u>15,160,664</u>	<u>1,287,218</u>	<u>96,309,313</u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Special Revenue Funds

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2007

	<u>Special Reserve Fund</u>	<u>Child Development Fund</u>	<u>Bookstore Fund</u>	<u>Cafeteria Fund</u>	<u>Total</u>
Revenues:					
Federal revenues:					
Tuition and fees	\$ —	178,860	—	—	178,860
Other	1,031,958	482,950	—	32,635	1,547,543
Total federal revenues	<u>1,031,958</u>	<u>661,810</u>	<u>—</u>	<u>32,635</u>	<u>1,726,403</u>
State revenues:					
State apportionment	10,323,197	—	—	—	10,323,197
Other	—	6,743,657	—	—	6,743,657
Total state revenues	<u>10,323,197</u>	<u>6,743,657</u>	<u>—</u>	<u>—</u>	<u>17,066,854</u>
Local revenues:					
Food service sales	—	—	—	2,262,962	2,262,962
Bookstore sales	—	—	31,420,898	—	31,420,898
Interest	3,217,620	72,301	2,609	—	3,292,530
Other	259,814	—	20,489	344,271	624,574
Total local revenues	<u>3,477,434</u>	<u>72,301</u>	<u>31,443,996</u>	<u>2,607,233</u>	<u>37,600,964</u>
Total revenues	<u>14,832,589</u>	<u>7,477,768</u>	<u>31,443,996</u>	<u>2,639,868</u>	<u>56,394,221</u>
Expenditures:					
Current:					
Academic salaries	68,672	4,151,347	—	—	4,220,019
Classified salaries	2,642,133	1,763,532	4,989,226	862,523	10,257,414
Employee benefits	715,035	1,161,918	1,329,862	167,536	3,374,351
Books and supplies	20,474	298,228	23,327,093	1,963,193	25,608,988
Contract services, student grant, and other operating expenditures	5,737,422	1,893,651	513,743	62,723	8,207,539
Utilities	—	—	343,221	—	343,221
Capital outlay and equipment replacement:					
Building	6,018,757	—	—	—	6,018,757
Equipment	136,573	37,189	159,941	52,946	386,649
Total expenditures	<u>15,339,066</u>	<u>9,305,865</u>	<u>30,663,086</u>	<u>3,108,921</u>	<u>58,416,938</u>
Excess (deficit) of revenues over (under) expenditures	(506,477)	(1,828,097)	780,910	(469,053)	(2,022,717)
Other financing sources – operating transfers in	10,424,746	1,824,829	408,264	529,261	13,187,100
Net increase (decrease) in fund balances	9,918,269	(3,268)	1,189,174	60,208	11,164,383
Fund balances at July 1, 2006	62,403,970	101,756	9,253,058	16,670	71,775,454
Fund balances at June 30, 2007	\$ <u>72,322,239</u>	<u>98,488</u>	<u>10,442,232</u>	<u>76,878</u>	<u>82,939,837</u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Balance Sheet

June 30, 2007

Assets

Cash held with trustee	\$	2,288,948
Accounts, notes, interest, and loans receivable, net		<u>10,450</u>
Total assets	\$	<u><u>2,299,398</u></u>

Liabilities and Fund Equity

Liabilities:		
Other liabilities	\$	<u>—</u>
Total liabilities		<u>—</u>
Fund equity:		
Restricted		<u>2,299,398</u>
Total fund equity		<u>2,299,398</u>
Total liabilities and fund equity	\$	<u><u>2,299,398</u></u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Debt Service Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2007

Revenues:		
Interest		\$ 223,362
Total revenues		<u>223,362</u>
Expenditures:		
Current:		
Debt service:		
Principal		39,505,000
Interest		38,385,058
Other		408,370
Total expenditures		<u>78,298,428</u>
Deficit of revenues over expenditures		<u>(78,075,066)</u>
Other financing sources:		
Local tax for G.O. Bonds		77,890,058
Proceeds from issuance of debt		2,033,265
Total other financing sources		<u>79,923,323</u>
Increase in fund balance		1,848,257
Fund balances at July 1, 2006		<u>451,141</u>
Fund balances at June 30, 2007		<u>\$ 2,299,398</u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Post Retirement Health Insurance Fund

Balance Sheet

June 30, 2007

Assets

Cash held with trustee	\$	6,280,509
Total assets	\$	<u>6,280,509</u>

Liabilities and Fund Equity

Liabilities:		
Other liabilities	\$	<u>—</u>
Total liabilities		<u>—</u>
Fund equity:		
Restricted		<u>6,280,509</u>
Total fund equity		<u>6,280,509</u>
Total liabilities and fund equity	\$	<u>6,280,509</u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Post Retirement Health Insurance Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2007

Revenues:		
Interest		\$ 280,371
		<u>280,371</u>
Total revenues		<u>280,371</u>
Expenditures:		
Current:		
Contract services, student grant, and other operating expenditures		—
Debt service:		
Principal		—
Interest		—
Bond issuance cost		—
Other		—
		<u>—</u>
Total expenditures		<u>—</u>
Deficit of revenues over expenditures		<u>280,371</u>
Other financing sources:		
Local tax for G.O. Bonds		—
Operating transfers in		6,000,138
		<u>6,000,138</u>
Total other financing sources		<u>6,000,138</u>
Increase in fund balance		6,280,509
Fund balances at July 1, 2006		<u>—</u>
Fund balances at June 30, 2007		\$ <u><u>6,280,509</u></u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Balance Sheet

June 30, 2007

Assets

Cash in County Treasury	\$ 437,048,268
Cash in banks	2,634,201
Investment	3,177,891
Accounts, notes, interest, and loans receivable, net of allowance for doubtful accounts	2,949,891
Due from other funds	307,581
Deposit with trustee	13,086,208
Total assets	<u>\$ 459,204,040</u>

Liabilities and Fund Equity

Liabilities:	
Accounts payable	\$ 57,708,076
Due to other funds	4,000
Total liabilities	<u>57,712,076</u>
Fund equity:	
Reserved for capital expenditures	<u>401,491,964</u>
Total fund equity	<u>401,491,964</u>
Total liabilities and fund equity	<u>\$ 459,204,040</u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Building Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2007

Local revenues:	
Interest	\$ 19,895,442
Other	<u>29,974,680</u>
Total local revenues	49,870,122
Expenditures:	
Other operating expenses and services	24,984,810
Other nonoperating expenses	—
Capital outlay and equipment replacement:	
Land	7,690,797
Buildings	216,735,757
Equipment	<u>3,955,509</u>
Total capital outlay and equipment replacement	<u>228,382,063</u>
Total expenditures	<u>253,366,873</u>
Deficit of revenues over expenditures	(203,496,751)
Other financing sources:	
Operating transfers in (out)	—
Proceeds from issuance of debt	<u>350,000,000</u>
Total other financing sources	<u>350,000,000</u>
Increase in fund balance	146,503,249
Fund balances at July 1, 2006	<u>254,988,715</u>
Fund balances at June 30, 2007	<u>\$ 401,491,964</u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Student Financial Aid Fund

Balance Sheet

June 30, 2007

Assets

Cash in County Treasury	\$	1,289,193
Cash in banks		1,033,219
Accounts, notes, interest, and loans receivable, net		5,087,318
Due from other funds		97,654
		<hr/>
Total assets	\$	<u><u>7,507,384</u></u>

Liabilities and Fund Equity

Liabilities:		
Accounts payable	\$	2,424,265
Due to other funds		398,365
Amounts held in trusts		—
		<hr/>
Total liabilities		<u>2,822,630</u>
Fund equity		
Restricted		4,684,754
Unrestricted		—
		<hr/>
Total fund equity		<u>4,684,754</u>
Total liabilities and fund equity	\$	<u><u>7,507,384</u></u>

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Student Financial Aid Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended June 30, 2007

Revenues:

Federal revenues:

College Work Study	\$ —
Seog	2,101,502
Pell (Beog)	59,413,602
Direct loan	5,610,726
Other	124,434
	<hr/>
Total federal revenues	67,250,264

State revenues:

Extended Opportunity Program	6,256,225
Cal Grant	7,405,785
Other	—
	<hr/>
Total state revenues	13,662,010

Local revenues:

Interest	205,631
Other	106,437
	<hr/>
Total local revenues	312,068

Total revenues	<hr/>
	81,224,342

Expenditures:

Other operating expenses and services	81,374,218
	<hr/>
Total expenditures	81,374,218
	<hr/>
Excess of revenues over expenditures	(149,876)

Other financing uses:

Operating transfers in (out)	—
	<hr/>
Net decrease in fund balance	(149,876)

Fund balances at July 1, 2006	4,834,630
	<hr/>

Fund balances at June 30, 2007	\$ <u><u>4,684,754</u></u>
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See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds

Combined Balance Sheet

June 30, 2007

Assets	East Los Angeles College	Los Angeles City College	Los Angeles Harbor College	Los Angeles Mission College	Los Angeles Pierce College	Los Angeles Southwest College	Los Angeles Trade Technical College	Los Angeles Valley College	West Los Angeles College	Total
Cash in banks	232,897	177,136	73,903	52,355	101,622	52,906	99,216	280,641	182,642	1,253,318
Investments	1,049,704	148,698	279,084	248,837	928,540	62,626	1,455,534	929,975	193,152	5,296,150
Allowance for doubtful accounts	2,250	14,093	—	838	2,774	10,422	—	—	4,020	34,397
Inventory	—	—	—	—	—	—	—	—	—	—
Investments in real estate	—	—	—	—	—	—	—	—	—	—
Capital assets	22,140	12,193	—	—	191,375	9,712	162,986	250,208	53,938	702,552
Total assets	\$ 1,306,991	352,120	352,987	302,030	1,224,311	135,666	1,717,736	1,460,824	433,752	7,286,417
Liabilities and Fund Equity										
Liabilities:										
Accounts payable	11,060	16,927	293	173	2,307	350	1,432	—	10,234	42,776
Deferred revenue	8,496	—	—	—	—	—	—	—	385	8,881
Long-term liabilities (note 10)	1,004,971	1,297	—	187,144	578,718	92,523	254,608	120,455	212,283	2,451,999
Scholarship and trust	—	—	12,402	—	37,160	—	602,634	295,575	—	947,771
Other liabilities	—	—	—	—	—	—	—	—	—	—
Total liabilities	1,024,527	18,224	12,695	187,317	618,185	92,873	858,674	416,030	222,902	3,451,427
Fund equity:										
Investment in fixed assets	22,140	12,193	—	—	191,375	9,712	162,986	250,208	53,938	702,552
Fund balances – designated for future expenditures	260,324	321,703	340,292	114,713	414,751	33,081	696,076	794,586	156,912	3,132,438
Total fund equity	282,464	333,896	340,292	114,713	606,126	42,793	859,062	1,044,794	210,850	3,834,990
Total liabilities and fund equity	\$ 1,306,991	352,120	352,987	302,030	1,224,311	135,666	1,717,736	1,460,824	433,752	7,286,417

See accompanying independent auditors' report.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Expendable Trust Fund – Associated Student Organization Funds and Agency Funds
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 Year ended June 30, 2007

	East Los Angeles College	Los Angeles City College	Los Angeles Harbor College	Los Angeles Mission College	Los Angeles Pierce College	Los Angeles Southwest College	Los Angeles Trade Technical College	Los Angeles Valley College	West Los Angeles College	Total
Revenues:										
Interest	\$ 6,560	6,954	12,264	8,921	25,450	624	50,291	25,116	8,917	145,097
Other	81,762	113,076	120,451	19,359	141,589	29,278	78,634	50,618	81,718	716,485
	88,322	120,030	132,715	28,280	167,039	29,902	128,925	75,734	90,635	861,582
Total revenues										
Expenditures:										
Contract services and other operating expenditures	\$ 49,144	91,447	169,853	10,502	137,125	47,504	268,746	52,097	98,359	924,777
	49,144	91,447	169,853	10,502	137,125	47,504	268,746	52,097	98,359	924,777
Total expenditures										
Net increase (decrease) in fund balance	\$ 39,178	28,583	(37,138)	17,778	29,914	(17,602)	(139,821)	23,637	(7,724)	(63,195)
Fund balances at July 1, 2006	243,286	305,313	377,430	96,935	576,212	60,395	998,883	1,021,157	218,574	3,898,185
Fund balances at June 30, 2007	\$ 282,464	333,896	340,292	114,713	606,126	42,793	859,062	1,044,794	210,850	3,834,990

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2007

The Los Angeles Community College District (the District) was established on July 1, 1969 and is comprised of an area of approximately 882 square miles located in Los Angeles County. There were no changes in the boundaries of the District during the year. The District currently operates nine colleges as follows:

- East Los Angeles College
- Los Angeles City College
- Los Angeles Harbor College
- Los Angeles Mission College
- Pierce College
- Los Angeles Southwest College
- Los Angeles Trade-Technical College
- Los Angeles Valley College
- West Los Angeles College.

The Board of Trustees for the fiscal year ended June 30, 2007 comprised the following members:

Board of Trustees		
Name	Office	Term expires
Georgia L. Mercer	President	06/30/07
Sylvia Scott-Hayes	Vice President	06/30/07
Mona Field	Member	06/30/07
Warren T. Furutani	Member	06/30/07
Kelly G. Candaele	Member	06/30/09
Nancy Pearlman	Member	06/30/09
Angela J. Reddock	Member	06/30/09
Eva Jackson	Student Trustee	05/31/08

Administration

Mr. Darroch F. Young, Chancellor
Dr. Adriana D. Barrera, Senior Vice Chancellor
Mr. Larry H. Eisenberg, Executive Director, Facilities Planning and Development
Ms. Camille A. Goulet, General Counsel
Ms. Jeanette L. Gordon, Chief Financial Officer/Treasurer

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Organization

June 30, 2007

College Presidents

Mr. Robert Isomoto**	East Los Angeles College
Dr. Steve Maradian	Los Angeles City College
Dr. Linda M. Spink	Los Angeles Harbor College
Mr. Ernest H. Moreno*	Los Angeles Mission College
Mr. Robert Garber	Pierce College
Dr. Jack E. Daniels*	Los Angeles Southwest College
Dr. Roland Chapdelaine	Los Angeles Trade-Technical College
Dr. Tyree Wieder	Los Angeles Valley College
Dr. Mark Rocha	West Los Angeles College

* Interim

** Acting

LOS ANGELES COMMUNITY COLLEGE DISTRICT
Schedule of Workload Measures for State General Apportionment
Annual (Actual) Attendance as of June 30, 2007

<u>Categories</u>	<u>State residents reported data</u>	<u>Audit adjustments</u>	<u>Revised data</u>
A. Summer intersession (Summer Segment 2 only):			
1. Noncredit	1,296.10		1,296.10
2. Credit	10,450.97	(32.27)	10,418.70
B. Summer intersession (Summer Segment 1 only):			
1. Noncredit	108.80		108.80
2. Credit	6,046.16		6,046.16
C. Primary terms (exclusive of summer intersessions):			
1. Census Procedure courses:			
a. Weekly census contact hours	65,034.93	(376.06)	64,658.87
b. Daily census contact hours	8,670.60	(2.44)	8,668.16
2. Actual hours of attendance procedure courses:			
a. Noncredit	4,304.77		4,304.77
b. Credit	5,272.25	3.48	5,275.73
3. Independent study/work experience education courses:			
a. Weekly census procedure courses	263.15	(0.64)	262.51
b. Daily census procedure courses	903.13		903.13
c. Noncredit independent study	—		—
D. Total Full-Time Equivalent Students (FTES)	<u>102,350.86</u>	<u>(407.93)</u>	<u>101,942.93</u>
Supplemental Information			
E. In-service training courses:	3,342.13		3,342.13
F. For future use			
G. For future use:			
H. Basic skills courses:			
1. Noncredit	4,899.71		4,899.71
2. Credit	7,431.42		7,431.42
I. CCFS-320 Addendum: CDCP Noncredit FTES	1,371.00		1,371.00
J. Centers FTES:			
1. Noncredit	NA		NA
2. Credit	NA		NA

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Reconciliation of Annual Financial and Budget Report (CCFS 311) with District Accounting System

Fiscal year ended June 30, 2007

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Retirees' Health Insurance Fund</u>	<u>Building Fund</u>
Total fund balances per annual financial budget report as of June 30, 2007	\$ 73,210,739	75,579,925	266,133	6,280,509	407,159,043
Audit adjustments to fund balance:					
Adjustment to bookstore inventory	—	(50,101)	—	—	—
Adjustment to salary and employee benefits expense	(974,635)	—	—	—	—
Adjustment to accounts receivable	(2,184,662)	—	—	—	—
Adjustment to accrued liabilities for building fund	—	—	—	—	(5,667,079)
Adjustments to bookstore's reserve for inventory and facility improvements	—	7,410,013	—	—	—
Adjustments to part-time faculty insurance reserve	772,346	—	—	—	—
Adjustments to worker's compensation payable reserve	1,900,000	—	—	—	—
Adjustments to Metropolitan Transport Authority (MTA) lease income reserve	2,209,231	—	—	—	—
Adjustments to revenue bond reserve	—	—	2,033,265	—	—
Adjustments and reclass	<u>1,722,280</u>	<u>7,359,912</u>	<u>2,033,265</u>	<u>—</u>	<u>(5,667,079)</u>
Unaudited ending fund balance as of June 30, 2007	74,933,019	82,939,837	2,299,398	6,280,509	401,491,964
Capital assets:					
Fixed Assets, at cost	—	—	—	—	—
Associated Student Organization's fixed assets	—	—	—	—	—
Accumulated depreciation	—	—	—	—	—
Capital assets are not financial resources and therefore are not reported as assets in government funds	—	—	—	—	—
Other assets:					
Deferred issuance cost	—	—	—	—	—
Other assets are not financial resources and therefore not reported as assets in government funds	—	—	—	—	—
Long-term liabilities are not booked as part of fund balances:					
G.O. Bonds	—	—	—	—	—
Unamortized premium bonds	—	—	—	—	—
Prepaid interest expense	—	—	—	—	—
Revenue bond	—	—	—	—	—
Workers' compensation claims payable	—	—	—	—	—
General liability	—	—	—	—	—
Vacation benefits payable	—	—	—	—	—
Capital lease payable	—	—	—	—	—
Audited net assets as of June 30, 2007	\$ <u>74,933,019</u>	<u>82,939,837</u>	<u>2,299,398</u>	<u>6,280,509</u>	<u>401,491,964</u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Reconciliation of Annual Financial and Budget Report (CCFS 311) with District Accounting System

Fiscal year ended June 30, 2007

	Student Financial Aid Fund	ASO Fund	General long-term fixed assets	Other GASB adjustments to general long-term debt	Total
Total fund balances per annual financial budget report as of June 30, 2007	\$ 4,684,754	3,834,990	—	—	571,016,093
Audit adjustments to fund balance:					
Adjustment to bookstore inventory	—	—	—	—	(50,101)
Adjustment to salary and employee benefits expense	—	—	—	—	(974,635)
Adjustment to accounts receivable	—	—	—	—	(2,184,662)
Adjustment to accrued liabilities for building fund	—	—	—	—	(5,667,079)
Adjustments to bookstore's reserve for inventory and facility improvements	—	—	—	—	7,410,013
Adjustments to part-time faculty insurance reserve	—	—	—	—	772,346
Adjustments to worker's compensation payable reserve	—	—	—	—	1,900,000
Adjustments to Metropolitan Transport Authority (MTA) lease income reserve	—	—	—	—	2,209,231
Adjustments to revenue bond reserve	—	—	—	—	2,033,265
Adjustments and reclass	—	—	—	—	5,448,378
Unaudited ending fund balance as of June 30, 2007	4,684,754	3,834,990	—	—	576,464,471
Capital assets:					
Fixed Assets, at cost	—	—	—	—	—
Associated Student Organization's fixed assets	—	—	—	—	—
Accumulated depreciation	—	—	—	—	—
Capital assets are not financial resources and therefore are not reported as assets in government funds	—	(702,552)	945,584,486	—	944,881,934
Other assets:					
Deferred issuance cost	—	—	—	—	—
Other assets are not financial resources and therefore not reported as assets in government funds	—	—	—	7,027,602	7,027,602
Long-term liabilities are not booked as part of fund balances:					
G.O. Bonds	—	—	—	(1,009,700,000)	(1,009,700,000)
Unamortized premium bonds	—	—	—	(53,126,489)	(53,126,489)
Prepaid interest expense	—	—	—	20,218,059	20,218,059
Revenue bond	—	—	—	(1,626,611)	(1,626,611)
Workers' compensation claims payable	—	—	—	(37,079,470)	(37,079,470)
General liability	—	—	—	(5,877,230)	(5,877,230)
Vacation benefits payable	—	—	—	(13,914,397)	(13,914,397)
Capital lease payable	—	—	—	(5,069,233)	(5,069,233)
Audited net assets as of June 30, 2007	\$ <u>4,684,754</u>	<u>3,132,438</u>	<u>945,584,486</u>	<u>(1,099,147,769)</u>	<u>422,198,636</u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal Awards

June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA or project number</u>	<u>Award or pass-through identification number</u>	<u>Expenditures</u>
U.S. Department of Agriculture :			
Direct programs :			
Water Improvement by the Next Generation (WINGS)	10.223	2005-38422-15933	\$ 83,329
Summer Food Service	10.559		33,858
Subtotal direct programs			<u>117,187</u>
Pass-through California Department of Education:			
Child Care Food Programs	10.558	19-2432-2A	343,406
Pass-Through California Department of Health Services:			
California Nutrition Network	10.561		124,297
California Nutrition Network	10.561		259,878
California Nutrition Network	10.561		493,957
California Nutrition Network	10.561		641,780
Subtotal pass-through programs			<u>1,863,318</u>
Total U.S. Department of Agriculture			<u>1,980,505</u>
U.S. Department of Housing and Urban Development:			
Direct programs:			
Hispanic Serving Institution	14.514		185,408
Community Outreach Partnership Centers	14.511	COPC-CA-04-703	111,547
Subtotal direct programs			296,955
Pass-through City of Los Angeles:			
Family Development Network-	14.218	108278	846,405
Total U.S. Department of Housing and Urban Development			<u>1,143,360</u>
U.S. Department of Labor:			
Pass-through City of Los Angeles:			
Regional Collaborative for Economic and Workforce	17.258	C-109274	36,853
City Job Basic Skills Training	17.258	C-109928	8,574
City Job Basic Skills Training	17.260	C-109928	1,136
Pass-through County of Los Angeles:			
Workforce Investment Act – Com Career Title I – Adult	17.258	20164	109,115
Workforce Investment Act – Com Career Title I -Dislocated	17.260	20220	274,879
Pass-through Economic Development Department:			
Workforce Investment Act -Nursing Education and Training 15%	17.258	R592677	501,214
Advanced Manufacturing Training Institute	17.268	HG-15849-07-60	333,955
Total U.S. Department of Labor			<u>1,265,726</u>
National Aeronautics and Space Administration:			
Direct programs:			
NASA-An Innovative Partnership	43.001	N/A	67,934
Pass-through United Negro College Foundation:			
Curriculum Improvement Partnership Award Program	43.XXX	1260.15C4	93,622
Total National Aeronautics and Space Administration			<u>161,556</u>
U.S. Department of Energy:			
Direct programs:			
Developing the Foundations for a SMART Technology Training	81.049		106,147
Total U.S. Department of Energy			<u>106,147</u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal Awards

June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA or project number</u>	<u>Award or pass-through identification number</u>	<u>Expenditures</u>
U.S. Department of Education:			
Direct programs:			
Higher Education Act :			
Higher Education Institutional Aid	84.031		\$ 3,203,670
Student support services	84.042		1,767,384
Talent search	84.044		638,217
Upward Bound	84.047		1,301,655
Educational opportunity centers	84.066		203,405
Fund for the Improvement of Postsecondary Education – Comprehensive Program	84.116		79,782
Fund for the Improvement of Post secondary Education – Fast Track Nursing Career	84.116		78,671
Minority Science and Engineering Improvement	84.120		309,299
Child Care Access Means Parents in School:			
Child Care Access Means	84.335		2,684
Student financial assistance :			
Federal Supplement Educational Opportunity Grants (FSEOG)	84.007		2,194,128
Federal Family Education Loans (FFEL)	84.032		2,926,367
Federal Work Study Program	84.033		2,254,692
Federal Perkins Loan Program	84.038		2,940,359
Federal Pell Grant Program	84.063		59,050,545
Federal Direct Student Loan	84.268		2,678,238
Academic Competitive Grant	84.375		103,050
Subtotal direct programs			<u>79,732,146</u>
Pass-through California Community College's Chancellors Office:			
Adult Education and Family Literacy & English Literacy	84.002	19-64741	682,188
Vocational and Applied Technology Education Act, Title IC	84.048	05-C01-027	438,302
Vocational and Applied Technology Education Act, Title IC	84.048	06-C01-027	4,050,740
Tech-Prep Education- Local Network	84.243	4386	3,474
Tech Prep Education- Local Network	84.243	3269	600
Tech Prep Education- Distributions Points	84.243	4392	24,709
Tech Prep Education- Distributions Points	84.243	66147	175,171
Tech Prep Education- Model Pathway Project	84.243	66212	86,777
Tech Prep Education- East Los Angeles College	84.243	05-139-032	12,305
Tech Prep Education – District Office	84.243	05-139-033	3,980
Tech Prep Education – Los Angeles Harbor College	84.243	05-139-034	1,398
Tech Prep Education- Los Angeles Pierce College	84.243	05-139-036	9,250
Tech Prep Education- Los Angeles Valley College	84.243	05-139-038	602
Tech Prep Education- Southwest Los Angeles College	84.243	05-139-039	3,348
Tech Prep Education- East Los Angeles College	84.243	06-139-032	67,459
Tech Prep Education- District Office	84.243	06-139-033	133,849
Tech Prep Education- Los Angeles Harbor College	84.243	06-139-034	64,150
Tech Prep Education- Los Angeles Mission College	84.243	06-139-035	66,074
Tech Prep Education- Los Angeles Pierce College	84.243	06-139-036	48,381
Tech Prep Education- West Los Angeles College	84.243	06-139-037	67,124
Tech Prep Education- Los Angeles Valley College	84.243	06-139-038	65,891
Tech Prep Education- Southwest Los Angeles College	84.243	06-139-039	65,467
Pass-through California Department of Education:			
California 21st Century Community Learning Centers	84.287	05-14349-V918-2A	135,948
California 21st Century Community Learning Centers	84.287	05-14349-V918-2A	62,838
Subtotal pass-through programs			<u>6,270,025</u>
Total U.S. Department of Education			<u>86,002,171</u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal Awards

June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA or project number</u>	<u>Award or pass-through identification number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services:			
Direct programs:			
Nursing Student Loans	93.364		\$ 39,224
Other Health Professions	93.888	1D1DHP05554-01-00	83,233
Other Health Professions	93.888	1D1DHP06404-01-00	<u>183,587</u>
Subtotal direct programs:			<u>306,044</u>
Pass-through State of California Department of Public Health:			
Temporary Assistance for Needy Families (TANF)	93.558	4362501711014	1,037,201
Pass-through California Department of Education:			
Instructional Materials	93.575	CIMS-5247	3,514
Infant Toddler Resource	93.575	CCAP-6162	2,880
CCDF School Age Resource	93.575	CSCC-6105	2,000
Instructional Materials	93.575	CIMS-6242	3,685
Child Development Block Grant	93.596	CCTR-5161	2,018
Child Development Block Grant	93.596	CCTR-6162	<u>155,021</u>
Subtotal pass-through programs:			<u>1,206,319</u>
U.S. Department of Health and Human Services			<u>1,512,363</u>
Corporation for National and Community Service:			
Americorps	94.006	N/A	<u>132,863</u>
Total Corporation for National and Community Service			<u>132,863</u>
U.S. Department of Homeland Security:			
Pass-through California Governor's Office of Emergency Services:			
Hazard Mitigation Grants	97.039	FEMA-DR-1008-1016-CA	<u>216,635</u>
U.S. Department of Homeland Security			<u>216,635</u>
Total Expenditures of Federal Awards			\$ <u>92,521,326</u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of State Financial Awards

June 30, 2007

<u>Program name</u>	<u>Cash received</u>	<u>Accounts receivable</u>	<u>Deferred income</u>	<u>Total program revenues</u>	<u>Total program expenditures</u>
Disabled Students Program and Services	\$ 7,245,250	—	432,529	6,812,721	6,812,721
State Matriculation (Credit)	6,934,056	—	142,764	6,791,292	6,791,292
State Matriculation (Non Credit)	758,954	—	—	758,954	787,649
Student Financial Aid Administration	4,964,935	—	—	4,964,935	4,979,844
One-Time Block Grant/Instructional Equipment/ Deferred Maintenance	* 9,532,431	—	1,031,319	8,501,112	8,501,112
Basic Skills	* 3,593,633	—	3,593,633	—	—
Extended Opportunity Program and Services (EOPS)	12,334,565	—	—	12,334,565	12,370,825
Cooperative Agencies Resource for Education (CARE)	1,361,752	—	94,701	1,267,051	1,267,051
CalWORKS Program	6,349,593	—	1,148,010	5,201,583	5,201,583
Telecommunication and Technology Infrastructure Program	433,217	—	—	433,217	647,487
Foster Care Program	917,147	295,520	—	1,212,667	1,241,323
Staff Development	400,148	—	269,607	130,541	130,541
Faculty and Staff Diversity	74,069	—	36,823	37,246	37,246
Career Tech Trailer Bill	* 3,184,221	—	802,747	2,381,474	2,381,474
CAHSEE Preparation Program	177,849	—	61,986	115,863	115,863
Nursing Program	896,023	—	222,458	673,565	673,565
Temporary Assistance for Needy Families CDC	143,406	274,789	80	418,115	418,115
Independent Living Program	—	232,266	1,294	230,972	230,972
Economic Development	2,256,861	504,764	529,075	2,232,550	2,232,550
FSS – Fund for Student Success	169,088	47,974	—	217,062	218,860
Transfer and Articulation Program	45,000	—	5,703	39,297	39,297
Other state assistance programs	154,531	250,826	14,867	390,490	390,490
Child Development Pre-School Care	1,677,341	846,067	—	2,523,408	2,729,026
Child Development Services	1,013,313	458,452	—	1,471,765	1,479,804
Family Child Care Homes Network	548,927	148,943	—	697,870	708,884
CAL Grants	7,405,785	—	—	7,405,785	7,430,845
Total State Programs	72,572,095	3,059,601	8,387,596	67,244,100	67,818,419

* Received through Principal Apportionment, allowed to carryover unspent balance and not booked as deferred income.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2007

(1) General

The accompanying Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards present the activity of all federal and state financial assistance programs of the Los Angeles Community College District (the District). The District reporting entity is defined in the basic financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included in the schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards and Schedule of State Financial Assistance are presented using the accrual basis of accounting.

(3) Reconciliations to Basic Financial Statements

Amounts reported in the accompanying Schedule of State Financial Assistance agree with the amounts reported in the related basic financial statements, in all material respects.

State revenues in the fund financial statements

General Fund	\$ 412,564,932
Special Revenue Fund	17,066,854
Student Financial Aid Fund	<u>13,662,010</u>
Total state revenues in fund financial statements	<u>\$ 443,293,796</u>

Total state revenues in accompanying schedule

\$ 67,244,100

Add:

General Fund:

Basic and equalization aid	342,084,410
State lottery	12,954,708
Tax relief subvention	1,307,052
Other state funds	<u>9,380,329</u>

Total other General Fund revenues 365,726,499

Special Revenue Fund:

Community College Construction Act	9,821,763
Scheduled Maintenance Program	<u>501,434</u>

Total other Special Revenue Fund revenues 10,323,197

Total state revenues in fund financial statements \$ 443,293,796

LOS ANGELES COMMUNITY COLLEGE DISTRICT
Notes to Schedules of Expenditures of Federal and State Awards
Year ended June 30, 2007

(4) Loans Outstanding

The District made the following advances and had the following loans outstanding which were held by the District as of June 30, 2007. Loan balances outstanding are included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards.

<u>Cluster name/program title</u>	<u>Federal CFDA number</u>	<u>Loan advances made</u>	<u>Loan balances outstanding</u>
Student financial aid cluster:			
Federal Family Education Loans (FFEL)	84.032	\$ 2,926,367	—
Federal Perkins Loans (FPL)	84.038	341,801	2,940,359
Federal Direct Student Loans	84.268	2,678,238	—
Nursing Student Loans	93.364	—	39,224

(5) Subrecipients

The District did not provide any funds to subrecipients during the year ended June 30, 2007.

(6) Federal Clusters of Programs

The following summarizes the expenditures of federal program clusters included in Schedule of Expenditure of Federal Awards:

	<u>CFDA</u>	<u>Expenditures</u>
Workforce Investment Act (WIA) Cluster:		
WIA Adult Program	17.258	\$ 655,756
WIA Youth Activities	17.259	—
WIA Dislocated Workers	17.260	276,015
		<u>\$ 931,771</u>
TRIO Cluster:		
Student Support Services	84.042	\$ 1,767,384
Talent Search	84.044	638,217
Upward Bound	84.047	1,301,655
Educational Opportunity Centers	84.066	203,405
		<u>\$ 3,910,661</u>

LOS ANGELES COMMUNITY COLLEGE DISTRICT
Notes to Schedules of Expenditures of Federal and State Awards
Year ended June 30, 2007

(6) Federal Clusters of Programs, continued

	CFDA	Expenditures
Student Financial Assistance Cluster:		
Federal Supplementary Educational Opportunity Grants (FSEOG)	84.007	\$ 2,194,128
Federal Family Education Loans (FFEL)	84.032	2,926,367
Federal Work Study (FWS)	84.033	2,254,692
Federal Perkins Loans (FPL)	84.038	2,940,359
Federal Pell Grant Program (PELL)	84.063	59,050,545
Federal Direct Student Loans (Direct Loan)	84.268	2,678,238
Academic Competitiveness Grant (ACG)	84.375	103,050
Nursing Student Loans	93.364	39,224
		\$ 72,186,603
Child Care Development Fund Cluster:		
Child Care and Development Block Grant	93.575	\$ 12,079
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	157,039
		\$ 169,118

**INDEPENDENT ACCOUNTANTS' REPORT ON
STATE COMPLIANCE REQUIREMENTS**



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Accountants' Report on State Compliance Requirements

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have audited the basic financial statements of the Los Angeles Community College District (the District) as of and for the year ended June 30, 2007, and have issued our report thereon, dated March 14, 2008.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM):

- Salaries of Classroom Instructors: 50 Percent Law (421)
- Apportionment for Instructional Service Agreements/Contracts (423)
- State General Apportionment (424)
- Residency Determination for Credit Courses (425)
- Students Actively Enrolled (426)
- Concurrent Enrollment of K-12 Students in Community College Credit Courses (427)
- Uses of Matriculation Funds (428)
- Gann Limit Calculation (431)
- Enrollment Fee (432)
- California Work Opportunity and Responsibility to Kids (CalWORKS) – Use of State and Federal Temporary Assistance for Needy Families (TANF) Funding (433)
- Scheduled Maintenance Program (434)
- Open Enrollment (435)
- Minimum Conditions – “Standards of Scholarship” (436)
- Student Fee – Instructional Materials and Health Fees (437).

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Except as discussed in the following paragraph, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

We were unable to obtain sufficient documentation supporting the compliance of the District with the CalWORKs program requirement to supplement and not supplant existing college funding and services as outlined in Section 433 of the CDAM as described in finding S-07-10.

In our opinion, except further effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the District's compliance with the CalWORKs program requirement to supplement and not supplant existing college funding and services, and except for findings S-07-01 through S-07-09 and S-07-11 through S-07-14 described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2007.

This report is intended solely for the information and use of the District's management, the board of trustees, audit committee, and others within the District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 14, 2008

ADDITIONAL REPORTS OF INDEPENDENT AUDITORS



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

We have audited the basic financial statements of the Los Angeles Community College District (the District) as of and for the year ended June 30, 2007, and have issued our report thereon, dated March 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Items FS-07-01 to FS-07-06 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that

are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's update to the findings identified in our previous year's audits are described in the accompanying schedule of prior year federal and state findings and prior year's comments. We did not audit the District's response and update, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 14, 2008



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

**Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133**

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California:

Compliance

We have audited the compliance of the Los Angeles Community College District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We did not audit the District's compliance with the requirements governing performance of timely mailing of grace notice and regular/past due bills, performing required phone contacts, preparing disclosure and repayment information, providing history of payment transactions and adjustments in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan program; figures for part II, sections A, B, C, D, and E of the fiscal operations report and application to participate in accordance with the requirements of the Student Financial Assistance Cluster programs; student status confirmation reports in accordance with the requirements of the Student Financial Assistance Cluster: Federal Family Education Loans and Federal Direct Loan Program as described in the Compliance Supplement. Those requirements govern functions performed by the National Student Clearinghouse and Affiliated Computer Systems. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements. National Student Clearinghouse's and Affiliated Computer Systems' compliance with the requirements governing the functions that it performs for the District for the year ended June 30, 2007 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Services*. Our report does not include the results of the other accountants' examination of National Student Clearinghouse's and Affiliated Computer Systems' compliance with such requirements.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that

could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the District with the higher education institutional aid program regarding level of effort – supplement not supplant as described in finding F-07-10, nor were we able to satisfy ourselves as to the District's compliance with those requirements by other auditing procedures.

As described in findings F-07-07, F-07-18, and F-07-19 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs and equipment management that are applicable to its vocational education – basic grants to states and allowable costs that are applicable to its higher educational institutional aid program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the District's compliance with the requirements of the higher educational institutional aid program regarding level of effort – supplement not supplant and except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings F-07-01 through F-07-05, F-07-08, F-07-09, F-07-11 through F-07-14, F-07-16, and F-07-17.

Internal Control over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Requirements governing performance of timely mailing of grace notice and regular/past due bills, performing required phone contacts, preparing disclosure and repayment information, providing history of payment transactions and adjustments in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan program; figures for part II, sections A, B, C, D, and E of the fiscal operations report and application to participate in accordance with the requirements of the Student Financial Assistance Cluster programs; student status confirmation reports in accordance with the requirements of the Student Financial Assistance Cluster: Federal Family Education Loans and Federal Direct Loan Program as described in the Compliance Supplement are performed by National Student Clearinghouse and Affiliated Computer Systems. Internal control over compliance related to such functions for the year ended June 30, 2007 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Services*. Our report does not include the results of the other

accountants' testing National Student Clearinghouse's and Affiliated Computer Systems' internal control over compliance related to such functions.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items F-07-01 through F-07-20 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control over compliance. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider findings F-07-07, F-07-10, F-07-18, and F-07-19 to be material weaknesses.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees, management, and the federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 14, 2008

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified**
- (b) Significant deficiencies in internal control were disclosed by the audit of the basic financial statements: **Yes**

Material weaknesses: **No**

- (c) Noncompliance which is material to the basic financial statements: **No**
- (d) Significant deficiencies in internal control over major programs: **Yes**

Material weaknesses: **Yes**

- (e) The type of report issued on compliance for major programs:

Student Financial Aid Cluster – **Unqualified**

TRIO Cluster – **Unqualified**

Vocational Education Basic Grants to States – **Qualified**

Higher Education Institutional Aid – **Qualified**

- (f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**

- (g) Major programs:

U.S. Department of Education

- Student Financial Assistance Cluster

CFDA 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA 84.032	Federal Family Education Loans (FFEL)
CFDA 84.033	Federal Work-Study Program (FWS)
CFDA 84.038	Federal Perkins Loans (FPL)
CFDA 84.063	Federal Pell Grant Program (PELL)
CFDA 84.268	Federal Direct Student Loans (DIRECT LOAN)
CFDA 84.375	Academic Competative Grant (ACG)
CFDA 93.364	Nursing Student Loans (NSL)

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

- Higher Education Institutional Aid – CFDA 84.031
- TRIO Cluster
 - CFDA 84.042 Student Support Services
 - CFDA 84.044 Talent Search
 - CFDA 84.047 Upward Bound
 - CFDA 84.066 Educational Opportunity Centers
- Vocational Education Basic Grants to States – CFDA 84.048

(h) Dollar threshold used to distinguish between Type A and Type B programs: **\$2,724,079**

(i) Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **No.**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

FS-07-01: Payroll

Condition and Context

Effective July 1, 2005, the District implemented the SAP-HR module. During this implementation, the District did not perform any parallel testing between the new SAP-HR module and the existing legacy system. Consistent with our results in prior year, we noted numerous exceptions in our internal controls and substantive procedures over payroll expenditures and related accounts. The District's current internal control procedures appear to be more detective controls rather than preventative. We noted both system and manual errors that were not detected or resolved in a timely manner.

Of the 308 sampled payroll payments made to employees for an individual pay cycle, we noted that 51 of the payroll payments were incorrectly calculated or unsupported. The 51 exceptions extrapolated to an overstatement of \$3.9 million and an understatement of \$1.3 million in salary expense.

The following is a summary of the types of exceptions over payroll-related accounts noted:

- Salaries earned by employees in prior years were incorrectly included in the current year payroll expense
- The number of hours reported in SAP did not agree with the hours reported on timesheets
- Incorrect pay rates were used in the calculation of salaries
- Lack of documentation to support the employee's pay rates, level and/or job assignments
- Lack of management review over accrued payroll and compensated absences
- Terminated employees were not updated in the system in a timely manner resulting in some employees being paid for well over a year after their termination
- Employees were not consistently added into the system upon employment in a timely manner, which resulted in delays in processing their compensation

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

- The District's SAP-HR module does not have uniform procedures in place to hire, terminate, or change employment status. There were also no uniform procedures in place to process payrolls. Additionally, there do not appear to be effective controls in place to ensure the integrity of the information entered into the system.

Cause and Effect

The issues noted above resulted in payroll errors and delays in the process of payroll transactions. Additionally, a lack of formal systems development or acquisition policies and procedures compromises system integrity. The potential for greater, more costly changes to be made to a system once operational is high. If there is little or no control over system changes, the benefits originally gained by controlling the system's implementation are lost as subsequent changes to the newly implemented system are made. Additionally, a lack of parallel (conversion) testing compromises the validity and accuracy of data transported from previously used systems.

Criteria

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described above represent a significant deficiency in internal controls.

Recommendation

We recommend that management perform internally or hire a qualified specialist to perform a detailed post implementation review of the SAP-HR implementation to address business/system controls, SAP-HR security, and SAP-HR segregation of duties. The post implementation review should take into account the following factors:

- Business/System Controls
 - Data Integrity: interfaces, conversions, testing, reporting
 - Business process controls
 - IT operations, including basis administration
- SAP-HR security
 - Assess security design against "best practices"
 - Perform an analysis of security exposures
 - Determine root cause of any security issues identified
- SAP-HR segregation of duties
 - Identify and assess segregation of duties exposures
 - Determine root cause of segregation issues identified

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

- Target appropriate compensating controls to mitigate risks

We also recommend that management establish formal procedures and internal controls to ensure that payrolls are processed accurately. Further, we recommend that management retain manual supporting documentation for payroll payments until the SAP-HR module controls are operating effectively.

Views of Responsible Officials and Planned Corrective Action

District management concurs with the audit findings that the lack of parallel payrolls, new business processes, and controls during the implementation of the SAP-HR module are the principal contributing factors resulting in both the large number of system errors as well as human errors detailed in the report.

To address these critical concerns new payroll and HR reports have been developed that assist the staff and management in reconciling payments, determining employees on unpaid leave, and reviewing the payroll edits for potential incorrect pays. The development of these reports is an ongoing process. Mini-project teams have been formed to address specific systems errors that cause error-pay. Specifically, the collection and remittance of both union dues and retirement deductions will be automated and standardized to capture the required deductions timely and correctly. The District has recently hired a new training coordinator to develop and conduct training modules in HR and payroll for the campus and district staff.

The District will further devote resources to developing, documenting, and implementing new business processes and internal controls to ensure the integrity of data entered into the SAP system either directly or through the PCR and protocol systems. The recently hired Director of Internal Audit will play a major role in identifying the areas of the weakest controls and assist the HR and payroll departments in this effort.

FS-07-02: Financial Reporting

Condition and Context

The District does not currently have policies or procedures in place that allow them to identify a comprehensive list of completed capital asset projects by year completed. The initial capital asset rollforward provided by management contained the following errors which were subsequently corrected by the District:

- A \$2.1 million adjustment was subsequently identified which represented projects that were completed and ready for its intended use during the current year but were not appropriately transferred to a depreciable capital asset category. An adjustment was subsequently made to the District's financial statements to properly classify the capital assets by depreciable capital asset category.
- Approximately \$15 million were initially recorded as capital assets but should have been expensed. The District adjusted its financial statements to reflect the write-off of the costs.

Additionally, there were also adjustments recorded to reclassify the following items on the Statement of Cash Flows:

- \$16 million related to the premium on bonds was reclassified from the local tax for G.O. Bonds to the proceeds from capital debt

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

- \$61.9 million related to revenues received from the local taxes for the G.O. Bonds was reclassified from cash flows from noncapital financing activities to cash flows from capital financing activities

Finally, there were adjustments required to the District's Schedule of Expenditures of Federal Awards which primarily related to separately breaking out FFEL and Direct loans into CFDA 84.032 and 84.268, respectively, as well as reclassifying two grants from the Schedule of State Financial Awards to the Schedule of Expenditures of Federal Awards totaling approximately \$1.7 million related to CFDA 10.561 and 84.287.

Cause and Effect

The financial statement adjustments related to capital assets related primarily to construction in progress. The majority of construction in progress is related to bond funded measures for capital improvement programs in each of the District's nine colleges. Effective July 2007, the District's board of trustees approved a new program manager to oversee all bond-funded capital improvements. The Program Manager is responsible for maintenance of the master schedule of work performed, program budgets, accounting, contracting, and development. The Program Manager doesn't conduct a review of when projects are completed in a timely manner. Lack of formal procedures in place to address the proper classification of construction in progress can also impact the related depreciation expense and capitalized interest of the completed project.

The financial statement reclassification appears to be due to the lack of processes or controls in place to determine that cash flow transactions are properly presented in the financial statements in accordance with U.S. generally accepted accounting principles.

The adjustments to the Schedule of Expenditures of Federal Awards appear to be due to the lack of processes or controls in place to determine that grant activities are properly recorded and disclosed in accordance with OMB Circular A-133.

Criteria

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described above represent significant deficiencies in internal controls.

Recommendation

We recommend that the District design and implement internal controls to ensure that completed projects are appropriately classified in a depreciable capital asset category. We also recommend that management also implement processes and controls to determine that transactions are recorded and disclosed in accordance with U.S. generally accepted accounting principles as well as OMB Circular A-133.

Views of Responsible Officials and Planned Corrective Action

Much of the completed work under the bond program to date represents remodel and update of existing buildings and systems at the Colleges. The value of those buildings and systems is currently reflected on

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

the District's capital asset account. To date, only a few buildings and systems have been completely "closed out". The District has historically treated projects as "closed out" when the project has received acceptance by the Board of Trustees and final certification by the Division of State Architect. The District has changed its tracking of projects to now defining a project as completed when the project is ready for its intended use. A procedure will be implemented to properly account for completed projects to transfer the projects from construction in progress to a depreciable asset category when the project is ready for its intended use. The District will also strengthen its process and procedures to ensure that the financial statements and the Schedule of Expenditures of Federal Awards are reviewed and approved for proper classification and that all grant activities are included.

FS-07-03: SAP Environment

Condition and Context

During our review of the general controls in the SAP environment, we identified the following weaknesses:

- Terminated users are not removed in a timely manner.
- The 'OPERATOR' SAP user account has the SAP_ALL privilege and is shared by Computer Operations personnel. The 'OPERATOR' network account has appropriate access to perform its functions, but it is shared. The 'OPERATOR' account in OpenVMS and SAP have excessive access to administrative functions. Access should be restricted only to what is needed for them to perform their daily duties and should not be shared.
- 10 users from the IT department have excessive access to the SAP_ALL profile. Basis and security administrators should not have SAP_ALL access; rather, they should only have access to Basis transactions. The SAP_ALL profile grants functional access to all modules (FI, HR, MM, etc.).
- The 'SAP*' remains active and retains its default profiles. The 'SAP*' account is a default super user account that is used when the application is initially installed and configured. Per the SAP Security Guide Vol. II, the 'SAP*' account should be locked and stripped from its default profiles. A new superuser should be established.
- 455 active users (excluding users with the SAP_ALL profile) have the ability to modify tables in production through transaction code SE16. This access should be restricted to Basis administrators only.
- 440 active users (excluding users with the SAP_ALL profile) have the ability to submit programs in production through transaction code SA38. This access should be restricted to Basis administrators only.
- 34 active users (excluding users with the SAP_ALL profile) have access to all transaction codes in production through a range (*). Security best practices suggest that ranges should not be granted to users. Instead, specific transaction codes that are relevant to the user's job function should be granted. Granting access to all transaction codes (*) removes the first layer of security in SAP.
- 8 of 25 selections of SAP changes do not have appropriate approvals. Of these 8 changes, 5 transports do not have transport request forms, and 3 have transport requests without the second approval to move the change to PRD.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Cause and Effect

Due to the lack of adequate staffing, management has indicated that duties needed to be shared across groups. However, weaknesses in the IT general controls environment can significantly compromise system integrity.

Weaknesses in user access control may lead to situations where an employee has the ability to perpetrate an error or irregularity and to conceal the error or irregularity. Additionally a lack of adequate security over user access in the business systems can potentially expose LACCD to a variety of risks resulting from unauthorized manipulation of financial data as well as an unauthorized exercise of system functions.

With regards to change management, once a system is operational, further changes to the system are usually required to meet the business's developing needs. Such changes should be subjected to controls as stringent as those used in the development or implementation of a new system. If there is little or no control over system changes, the benefits originally gained by controlling the system's implementation are lost as subsequent changes are made.

Criteria

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described above represent a significant deficiency in internal controls.

Recommendation

We recommend that management design and implement adequate access control and change management procedures to help ensure that the Company's business systems are adequately controlled and secured.

Views of Responsible Officials and Planned Corrective Actions

We uphold the utmost regards for securing our systems and applications. The district will be performing a review in the coming year to continue to improve upon our procedures and processes. Due to the small amount of staff some duties need to be shared across groups. However, we are currently revising our support roles to better reflect current duties. We are also reviewing our user profiles with this access and plan to make updates in the coming year.

FS-07-04: Open Virtual Memory System Students Information System and Financial Aid Management System (SIS and FAMS Application)

Condition and Context

During our review of the general controls in the OpenVMS environment, we identified the following weaknesses:

- Terminated users are not removed in a timely manner.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

- The 'Backup' and 'OPERATOR' OpenVMS accounts, which have the SYSPRV privilege, are shared by Computer Operations personnel. SYSPRV privilege grants superuser access to the accounts, allowing them to make changes to the production environment.
- The 'SYSTEM' and 'QUALITY' accounts are shared by three (3) Software Systems Engineers. The 'SYSTEM' account is the system administrative account, while the 'QUALITY' account is used to move changes to production. Both accounts have the SYSPRV privilege, which grants superuser access to the accounts, allowing them to make changes to the production environment.
- LACCD has not developed a formal change management procedure for the OpenVMS application.
- SIS developers, FAMS developers, and SAP developers, test application changes at their discretion. Testing procedures may include unit testing, integration testing, or system testing. Once results are satisfactory, developers notify their supervisors that the change has been made, supervisors review changes. However, test scripts are not developed, and test results are not retained.
- 15 of 25 selected SIS and FAMS changes lacked evidence of initial request/approval to initiate the changes.

Cause and Effect

Due to the lack of adequate staffing, management has indicated that duties need to be shared. However, weaknesses in the IT General Controls Environment can significantly compromise system integrity.

Weaknesses in user access control may lead to situations where an employee has the ability to perpetrate an error or irregularity and to conceal the error or irregularity. Additionally, a lack of adequate security over user access in the business systems can potentially expose LACCD to a variety of risks resulting from unauthorized manipulation of financial data as well as an unauthorized exercise of system functions.

With regards to change management, once a system is operational, further changes to the system are usually required to meet the business developing needs. Such changes should be subjected to controls as stringent as those used in the development or implementation of a new system. If there is little or no control over system changes, the benefits originally gained by controlling the system's implementation are lost as subsequent changes are made.

Criteria

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described above represent a significant deficiency in internal controls.

Recommendation

We recommend that management design and implement adequate access control and change management procedures to help ensure that the Company's business systems are adequately controlled and secured.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Views of Responsible Officials and Planned Corrective Actions

The file system in VMS links to the user account of the creators and editors of files. This feature enables us to easily determine when changes have been made and by whom, a critical requirement for establishing audit trails. By deleting the user account, we would lose the audit trail. Since disabling the account has the same effect as deletion of preventing unauthorized access, our policy has been and will remain to disable accounts rather than delete them.

The District concurs with the recommendation. The District will improve its procedures on granting access to production systems to ensure that unauthorized program changes do not occur.

The systems and programming area will work with software engineering to solidify change management procedures for the VMS environment and require the use of appropriate forms and approvals.

FS-07-05: Access Controls to the Network

Condition and Context

During our review of the IT general controls on the network, we identified the following weaknesses:

- Terminated users are not removed in a timely manner.
- The 'root' user account is being shared by IT personnel. The 'root' account grants superuser access to the UNIX operating system.
- The 'SYS' and 'SYSTEM' Oracle DMBS administrator accounts are shared by IT personnel. The 'SYS' and 'SYSTEM' accounts are default superuser accounts and grant administrative access to the Oracle Database Management System.

Cause and Effect

Due to the lack of adequate staffing, management has indicated that duties need to be shared. However, weaknesses in the IT general controls environment can significantly compromise system integrity.

Weaknesses in user access control may lead to situations where an employee has the ability to perpetrate an error or irregularity and to conceal the error or irregularity. Additionally a lack of adequate security over user access in the business systems can potentially expose LACCD to a variety of risks resulting from unauthorized manipulation of financial data as well as an unauthorized exercise of system functions.

Criteria

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described above represent a significant deficiency in internal controls.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Findings and Questioned Costs

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Recommendation

We recommend that management design and implement adequate access control procedures to help ensure that the District's business systems are adequately controlled and secured.

Views of Responsible Officials and Planned Corrective Actions

User provisioning and deprovisioning workflow will be added to the SAP HR hiring/termination process. This will improve IT's efficiency and effectiveness when removing employees from systems after they have been terminated.

Operations and software systems engineering will implement sudo on unix systems and creating separate administrator accounts on Windows-based servers for staff members.

Some administrative accounts still require sharing. The Operations teams on each shift have worked together for many years. By running jobs on a single account, they are able to share responsibilities much more readily. Separating the accounts would significantly lower their productivity. While the recommendation may be appropriate for a data center with high turnover, it would reduce our operations team's effectiveness with no real gain in security or risk reduction.

FS-07-06: Application-related Issues in Relation to Business Processes

Condition and Context

During our review of application-specific controls and based on our inquiry of IT personnel, we noted control deficiencies related to in-scope applications and business processes used to generate management reports. These include the following:

Accounts Payable

- 15 users have been inappropriately granted security administrative access.
- 30 SAP users have been inappropriately granted access to process payments.
- 23 SAP users have been inappropriately granted access to maintain vendors.
- SAP automatically assigns numbers to purchase orders, but the system has been configured to allow external number assignment as well (allowing for a manual override of automatic number assignment). However, we noted that this feature had not been used during the current year.

General Ledger

- 36 SAP users have been inappropriately granted access to enter journal entries based on their job description.

Payroll Process

- Budget restrictions are inactive for payroll purchase requisitions and purchase orders (PO), allowing for processing of these documents even if funds within the budget are insufficient. As a result, if the amount of a payroll purchase order exceeds the remaining available budget, the system does not put a hold on the PO.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

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Tax

- All users who have access to SAP_ALL profile have access to update tax scales within SAP.

Cause and Effect

Due to the lack of adequate staffing, management has indicated that duties need to be shared. However, the findings noted above compromise both the security and accuracy of data within the SAP system used during the indicated business processes.

Criteria

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described above represent a significant deficiency in internal controls.

Recommendation

We recommend that management conduct periodic reviews of both roles within the organization and of user access for the SAP system in order to remove user access that generates segregation-of-duties conflicts within the accounts payable, general ledger, tax and payroll processes.

Furthermore, we recommend that management configure the SAP application to prevent the processing of a payroll purchase order when funds to process the order are insufficient.

Views of Responsible Officials and Planned Corrective Actions

Lack of adequate staff sometimes requires sharing of duties. However, we concur with the need to review the above to confirm the access and will make corrections as needed.

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Year Ended June 30, 2007

(3) Summary of Current Year Findings and Questioned Costs Relating to Federal Awards

<u>Summary of federal findings</u>	<u>Finding numbers</u>
1 Special Tests and Provisions – Disbursements to or on Behalf of Students – Disbursement of FFEL Funds to Students	F-07-01
2 Special Tests and Provisions – Disbursements to or on Behalf of Students – Disbursement of FFEL Funds to Lender	F-07-02
3 Special Tests and Provisions – Return of Title IV – Return of Funds to Department of Education	F-07-03
4 Special Tests and Provisions – Student Status Changes – Reporting to NSLDS	F-07-04
5 Special Tests and Provisions – Borrower Data Transmission and Reconciliation – Disbursement Dates Reported	F-07-05
6 Eligibility – User Access controls to Ed Express Software	F-07-06
7 Allowable Costs – Salary Expenditures Charged to Program	F-07-07
8 Allowable Costs – Endowment Challenge Grant Program	F-07-08
9 Equipment Management – Equipment Policies and Procedures	F-07-09
10 Level of Effort – Supplement not Supplant	F-07-10
11 Procurement Suspension and Debarment Support for Cost and Price Analysis	F-07-11
12 Reporting – Annual Performance Reports	F-07-12
13 Allowable Costs – Salary Expenditures Charged to Program	F-07-13
14 Allowable Costs – Entertainment Expenses	F-07-14
15 Eligibility – Approval of Participant Applications	F-07-15
16 Procurement Suspension and Debarment – Support for Cost and Price Analysis	F-07-16
17 Procurement Suspension and Debarment – Suspension and Debarment Verification or Certification	F-07-17
18 Allowable Costs – Salary Expenditures Charged to Program	F-07-18
19 Equipment Management – Equipment Policies and Procedures	F-07-19
20 Procurement Suspension and Debarment – Suspension and Debarment Controls	F-07-20

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Finding F-07-01 – Special Tests and Provisions – Disbursements To or On Behalf of Students – Disbursement of FFEL Funds to Student or Parent

Federal Program Information

<i>Federal Catalog Number:</i>	84.032
<i>Federal Program Name:</i>	Student Financial Aid Cluster: Federal Family Education Loan (FFEL)
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	East Los Angeles College
<i>Federal Award Number and Award Year:</i>	OPE ID No. 02226000, FFEL ID: 022260; July 1, 2006 to June 30, 2007

Criteria or requirement

Code of Federal Regulations, Title 34 – Education, Chapter VI – Office of Postsecondary Education, Department of Education, Part 668 – Student Assistance General Provisions – Subpart K – Cash Management, Section. 668.167 FFEL Program Funds.

- An institution must return FFEL program funds to a lender if the institution does not disburse those funds to a student or parent for a payment period within three business days following the date the institution receives the funds if the lender provides those funds to the institution by electronic funds transfer and master check.

Condition Found

During our procedures performed over the timing of the disbursements made to students who received FFEL, we noted 5 of the 32 students sampled at East Los Angeles College did not receive their payments within the required 3 business days from when the lender provided the electronic funds transfer to the District. These payments were disbursed to students between 6 to 8 business days after the cash was received, instead of the required 3 business days.

Total FFEL expenditures for the fiscal year ended June 30, 2007 amounted to \$2,926,367 for all District campuses with \$1,162,936 of that amount expended by East Los Angeles College.

Questioned Costs

\$9,938 of the \$53,073 FFEL disbursements sampled for East Los Angeles College

Possible Asserted Cause and Effect

Adequate monitoring controls do not appear to be in place to ensure that the timing of payments made to students are made within the required number of days, which resulted in the late disbursement of funds to the student or parent.

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Recommendation

We recommend the District strengthen controls to ensure that FFEL payments to students or parents are made within the required time frames.

Views of responsible officials and planned corrective actions

The District has policies and procedures in place to ensure that FFEL payments to students or parents are made within required time frames. Due to reorganization and restructuring at the college and district office, training for college financial aid office, business office and district accounting staff has been planned for 2008-09 to reinforce the procedures and ensure compliance.

Finding F-07-02 – Special Tests and Provisions – Disbursements To or On Behalf of Students – Return of FFEL Funds to Lender

Federal Program Information

<i>Federal Catalog Number:</i>	84.032
<i>Federal Program Name:</i>	Student Financial Aid Cluster: Federal Family Education Loan (FFEL)
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles Pierce College
<i>Federal Award Number and Award Year:</i>	OPE ID No. 00122600, FFEL ID: 001226; July 1, 2006 to June 30, 2007

Criteria or requirement

Code of Federal Regulations, Title 34 – Education, Chapter VI – Office of Postsecondary Education, Department of Education, Part 668 – Student Assistance General Provisions – Subpart K – Cash Management, Section 668.167 FFEL Program funds.

- If the institution does not disburse the loan funds to a student or parent as specified in paragraph (b)(1) or (c) of this section, the institution must return those funds to the lender promptly but no later than 10 business days after the date the institution is required to disburse the funds.

Condition found

During our procedures performed over the timing of the disbursements made to students participated in the FFEL program, we sampled 38 students that participated in the FFEL program and tested the timing of the disbursements made to the students. Our sample of 38 contained 3 students that had received payment from the lender but withdrew before the first day of class. One of those 3 students' payments was not returned to the lender until after 184 days of the cash receipt instead of the required 10 business days.

Total FFEL expenditures for the fiscal year ended June 30, 2007 amounted to \$2,920,367 for all District campuses with \$1,457,105 of that amount expended by Los Angeles Pierce College.

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Questioned Costs

\$1,274 of the \$3,860 from the three FFEL samples where the student withdrew before the first day of the semester

Possible asserted cause and effect

The student was dropped from class by the instructor but did not report the drop to the business office. There does not appear to be adequate monitoring controls in place to ensure that all student drops are captured to ensure the timing of payments made to students or return payments to lenders are made within the required number of days, which resulted in the late return of funds to the lender.

Recommendation

We recommend the District strengthen controls to ensure that FFEL payments to students are made within the required time frames.

Views of responsible officials and planned corrective actions

The District is focusing on training college and district staff on the District's financial aid accounting policies and procedures to strengthen controls concerning the return of Title IV funds for students who drop.

Finding F-07-03 – Return of Title IV – Return of Funds to Department of Education

Federal Program Information

<i>Federal Catalog Number:</i>	84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 84.375
<i>Federal Program Name:</i>	Student Financial Aid Cluster: Federal Supplemental Educational Opportunity Grants (FESOG), Federal Family Education Loans (FFEL), Federal Work-Study Program (FWS), Federal Perkins Loans (FPL), Federal Pell Grant Program (PELL), Federal Direct Student Loans (Direct Loan), Academic Competitiveness Grant (ACG)
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles City College, East Los Angeles College, West Los Angeles College, Southwest Los Angeles College
<i>Federal Award Number and Award Year:</i>	OPE ID No. 00122300, OPE ID No. 02226000, OPE ID No. 00859600, OPE ID No. 00704700;

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Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

July 1, 2006 to June 30, 2007

Criteria or requirement

Code of Federal Regulations, Title 34 – Education, Chapter VI – Office of Postsecondary Education, Department of Education, Part 668 – Student Assistance General Provisions, Subpart B – Standards for Participation in Title IV, HEA Programs, Section 668.22 Treatment of title IV funds when a student withdraws, J. Timeframe for the return of title IV funds.

- An institution must return the amount of title IV funds for which it is responsible under paragraph (g) of this section as soon as possible but no later than 30 days after the date of the institution's determination that the student withdrew as defined in paragraph (l)(3) of this section. The timeframe for returning funds is further described in Section 668.173(b).

Condition found

During our procedures performed over the return of Title IV funds, we sampled 120 students that withdrew from classes during the award year and tested the accuracy of the calculations of the funds required to be returned and the compliance with the timing of any required return payments. Our sample consisted of 31 of the 120 samples with amounts required to be returned to the Department of Education by the District. Of those 31 items, we noted 15 were not returned to the Department of Education within the required 30 days from the date that it determined the student withdrew. These exceptions are as follows:

- 2 of the 6 students from Los Angeles City College with payments returned after 72 days.
- 2 of the 11 students from East Los Angeles College with payments returned after 181 days.
- 5 of the 8 students from West Los Angeles College with payments returned after 44 and 209 days.
- 6 of the 6 students from Southwest Los Angeles College with payments returned after 51 and 216 days.

Total Title IV expenditures for the fiscal year ended June 30, 2007 amounted to \$72,186,603 for all nine District campuses, with \$118,294 returned by the District to the Department of Education during the fiscal year ended June 30, 2007.

Questioned Costs

\$2,062 of the \$5,856 from the 31 samples where the District was required to return Title IV funds to the Department of Education

Possible asserted cause and effect

Adequate monitoring controls do not appear to be in place to ensure that funds are returned to the Department of Education within the required 30 days, which resulted in the late return of funds.

Recommendation

We recommend the District strengthen controls to ensure that funds required to be returned to the Department of Education are made within 30 days.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

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Views of responsible officials and planned corrective actions

Due to restructuring and reorganization at the colleges and district, some returns were not completed within required time frames. The District is emphasizing training of staff to ensure that guidelines are followed.

Finding F-07-04 – Special Tests and Provisions-Student Status Changes – Reporting to National Student Loan Database System (NSLDS)

Federal Program Information

<i>Federal Catalog Number:</i>	84.268, 84.032
<i>Federal Program Name:</i>	Student Financial Aid Cluster: Federal Direct Student Loan (Direct Loan), Campus, Federal Family Education Loan (FFEL)
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles City College, Los Angeles Valley College, Los Angeles Pierce College, Los Angeles Mission College
<i>Federal Award Number and Award Year:</i>	OPE ID No. 00122300, Direct Loan ID: G01223; OPE ID No. 00122800, Direct Loan ID: G01228; OPE ID No. 00122600, FFEL ID: 001226; OPE ID No. 01255000, FFEL ID: 012550; July 1, 2006 to June 30, 2007

Criteria or requirement

Code of Federal Regulations, Title 34 – Education, Chapter VI – Office of Postsecondary Education, Department of Education, Part 682 – Federal Family Education Loan (FFEL) Program – Subpart F – Requirements, Standards, and Payments for Participating Schools, Section 682.610 Administrative and fiscal requirements for participating schools,(c) student status confirmation reports.

- Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, a school shall complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days:
 - If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis;

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- If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended;
- If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or
- If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Code of Federal Regulations, Title 34 – Education, Chapter VI – Office of Postsecondary Education, Department Of Education, Part 685 – William D. Ford Federal Direct Loan Program – Subpart C – Requirements, Standards, and Payments for Direct Loan Program, Schools, Sec. 685.309 Administrative and fiscal control and fund accounting requirements for schools participating in the Direct Loan Program, (b) Student status confirmation reports.

- Upon receipt of a student status confirmation report from the Secretary, a school shall complete and return that report to the Secretary within 30 days of receipt; and unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who:
 - Enrolled at that school but has ceased to be enrolled on at least a half-time basis;
 - Has been accepted for enrollment at that school but failed to enroll on at least a half-time basis for the period for which the loan was intended; or
 - Has changed his or her permanent address.

Condition found

During our procedures performed over the reporting of student status changes for the FFEL and Direct loan programs, we noted 5 of our 30 students sampled with changes in status that occurred during the fiscal year that were not reported in accordance with the required time frames. Student status changes are required to be reported to the NSLDS within 30 days of the status change, unless the Student Status Confirmation is scheduled to be submitted within the next 60 days. These five exceptions we noted were as follows:

- 4 exceptions (Los Angeles City College and Mission College) with status changes that were not within the 60 days of the scheduled Student status confirmation and were reported to the NSLDS after 31, 40, 40, and 58 days;
- 1 exception (Los Angeles Valley College) was not reported to the NSLDS but was included on a student status confirmation; however, that was remitted after 68 days.

Total FFEL and Direct Loan expenditures for the fiscal year ended June 30, 2007 amounted to \$2,926,367 and \$2,678,238, respectively.

Questioned Costs

\$12,672 of the \$72,948 disbursements sampled of FFEL and Direct Loans

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Possible asserted cause and effect

Adequate monitoring controls do not appear to be in place to ensure that the status changes are being timely reported in accordance with NSLDS Enrollment Reporting Guide, which resulted in late and nonreporting of the status changes.

Recommendation

We recommend the District strengthen controls to ensure that student status changes are being appropriately reported to the NSLDS.

Views of responsible officials and planned corrective actions

The National Clearinghouse has been providing the District with enrollment reporting for the nine colleges for several years. The District is working with the clearinghouse to ensure compliance and has changed its enrollment reporting from 60 days to 30 days to ensure timeliness of reporting.

Finding F-07-05 – Special Tests and Provisions – Borrower Data Transmission and Reconciliation – Reported Disbursement Dates Reported

Federal Program Information

<i>Federal Catalog Number:</i>	84.268
<i>Federal Program Name:</i>	Student Financial Aid Cluster: Federal Direct Student Loan (Direct Loan)
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles Harbor College
<i>Federal Award Number and Award Year:</i>	OPE ID No. 00122400, Direct Loan ID: G01224; July 1, 2006 to June 30, 2007

Criteria or requirement

Code of Federal Regulations, Title 34 – Education, Chapter VI – Office of Postsecondary Education, Department of Education, Part 685 – William D. Ford Federal Direct Loan Program – Subpart C – Requirements, Standards, and Payments for Direct Loan Program Schools, Section 685.301 Origination of a loan by a Direct Loan Program school,(d) Reporting to the Secretary.

- A school that participates under school origination option 2 must submit the promissory note, loan origination record, and initial disbursement record for a loan to the Secretary no later than 30 days following the date of the initial disbursement. The school must submit subsequent disbursement records, including adjustment and cancellation records, to the Secretary no later than 30 days following the date the disbursement, adjustment, or cancellation is made.

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- A school that participates under school origination option 1 or standard origination must submit the initial disbursement record for a loan to the Secretary no later than 30 days following the date of the initial disbursement. The school must submit subsequent disbursement records, including adjustment and cancellation records, to the Secretary no later than 30 days following the date the disbursement, adjustment, or cancellation is made.

Condition found

During our procedures performed over the borrower data transmissions and reconciliations, we sampled student data reported to Direct Loan Servicing System (DLSS) and traced the data to supporting documentation of the college campuses. We noted 2 of the 30 students sampled had incorrect disbursement dates reported to DLSS.

Total Direct Loan expenditures for the fiscal year ended June 30, 2007 amounted to \$2,678,238 with \$442,148 of that amount expended by Los Angeles Harbor College.

Questioned Costs

\$3,063 of the \$44,940 direct loan students sampled

Possible asserted cause and effect

The campus indicated they had reported the dates the checks were physically picked up by the students at the campus instead of the dates the checks were issued and became available to be picked up, which resulted in the errors in reporting. The disbursement date is defined as the date the check is issued and became available for pickup in volume 4, chapter 2 of the Federal Student Aid Handbook.

Recommendation

We recommend the District strengthen controls to ensure that disbursement dates are reported accurately to the DLSS.

Views of responsible officials and planned corrective actions

Effective 2007 – 08, Los Angeles Harbor College will report the date that the funds become available to the students as the disbursement date regardless of the method of delivery: mailed to the student, deposited directly to the student’s bank account, or picked up on campus.

Finding F-07-06 – Eligibility – User Access Controls to EdExpress Software

Federal Program Information

Federal Catalog Number: 84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 84.375

Federal Program Name: Student Financial Aid Cluster: Federal Supplemental Educational Opportunity Grants (FESOG), Federal Family Education Loans (FFEL), Federal Work-Study Program (FWS), Federal

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Perkins Loans (FPL), Federal Pell Grant Program (PELL), Federal Direct Student Loans (Direct Loan), Academic Competitiveness Grant (ACG)

Federal Agency: U.S. Department of Education
Pass-through Entity: N/A
Campus: Los Angeles Harbor College
Federal Award Number and Award Year: OPE ID No. 00122400;
July 1, 2006 to June 30, 2007

Criteria or requirement

Code of Federal Regulations Title 34 – Education, Chapter VI – Office of Postsecondary Education, Department of Education, Part 668 – Student Assistance General Provisions – Subpart B – Standards for Participation in Title IV, HEA Programs, Section 668.16 Standards of administrative capability.

- To begin and to continue to participate in any Title IV, HEA program, an institution shall demonstrate to the Secretary that the institution is capable of adequately administering that program under each of the standards established in this section. The Secretary considers an institution to have that administrative capability if the institution:
 - Administers Title IV, HEA programs with adequate checks and balances in its system of internal controls; and
 - Divides the functions of authorizing payments and disbursing or delivering funds so that no office has responsibility for both functions with respect to any particular student aided under the programs. For example, the functions of authorizing payments and disbursing or delivering funds must be divided so that for any particular student aided under the programs, the two functions are carried out by at least two organizationally independent individuals who are not members of the same family, as defined in Section 668.15, or who do not together exercise substantial control, as defined in Section 668.15, over the institution;

Condition found

During our procedures performed over general information technology controls, we tested the appropriateness of the users who had access to EdExpress software, which is used in determining and packaging the student financial aid award amounts eligible. We tested the list of 20 active users at Los Angeles Harbor College with access to the EdExpress and noted that 1 active user was a terminated employee, who was not removed from the active user access listing.

Total Title IV expenditures for the fiscal year ended June 30, 2007 amounted to \$72,186,603 for all nine District campuses.

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Questioned Costs

None

Possible asserted cause and effect

Adequate controls do not appear to be in place over monitoring appropriate user access, most notably to remove access for users timely when they separate from service. By not timely terminating user access, the District increases the risk that inappropriate or unauthorized transactions may occur and not be detected.

Recommendation

We recommend the District strengthen user access monitoring controls to reduce the risk that inappropriate or unauthorized transactions may occur and not be detected.

Views of responsible officials and planned corrective actions

The campus will strengthen procedures to monitor user access but they are certain that no inappropriate or unauthorized transactions occurred in this case. Although there was a delay in removing the employee from the EDEXpress user database; her login to all District network and databases as well as e-mail was immediately disabled. The employee's access to web databases such as NSLDS and FAA Access was also immediately removed. The only way she could have logged on to her active login to EDEXpress would have been to ask another staff member to login to the campus network for her.

Finding F-07-07 – Allowable Costs – Salary Expenditures Charged to the Program

Federal Program Information

<i>Federal Catalog Number:</i>	84.031
<i>Federal Program Name:</i>	Higher Education Institutional Aid
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	West Los Angeles College, Los Angeles Mission College, Los Angeles Pierce College, Los Angeles City College, Los Angeles Harbor College
<i>Federal Award Number and Award Year:</i>	P031S050038 October 1, 2005 through September 30, 2007 P031S040034 October 1, 2005 through September 30, 2007 P031S060049 October 1, 2006 through September 30, 2007 P031A020161 October 1, 2006 through September 30, 2007 P031S010051 October 1, 2005 through June 30, 2007

Criteria or requirement

OMB Circular A-21, *Cost Principles for Educational Institutions*, Part J General provisions for selected items of cost, Section 10 – Compensation for personal services, Payroll distribution – Criteria for Acceptable Methods.

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- (a) The payroll distribution system will:
 - (i) be incorporated into the official records of the institution;
 - (ii) reasonably reflect the activity for which the employee is compensated by the institution; and
 - (iii) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in subsection a need not be included.)
- (b) The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and Facilities and Administration F&A cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.
- (c) The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify F&A costs and the functions to which they are allocable. The activities chargeable to F&A cost categories or the major functions of the institution for employees whose salaries must be apportioned (see subsection b.(1)b)), if not initially identified as separate categories, may be subsequently distributed by any reasonable method mutually agreed to, including, but not limited to, suitably conducted surveys, statistical sampling procedures, or the application of negotiated fixed rates.
- (d) Practices vary among institutions and within institutions as to the activity constituting a full workload. Therefore, the payroll distribution system may reflect categories of activities expressed as a percentage distribution of total activities.
- (e) Direct and F&A charges may be made initially to sponsored agreements on the basis of estimates made before services are performed. When such estimates are used, significant changes in the corresponding work activity must be identified and entered into the payroll distribution system. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period.
- (f) The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.
- (g) For systems which meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.

Condition found, including perspective

During our procedures performed over expenditures charged to the program, we selected a sample of expenditures charged by the various campuses to ascertain if they are allowable per applicable OMB cost circulars and program regulations. In our sample of 50 salary expenditures, we noted the following exceptions:

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- 4 of the 50 employees sampled contained errors in the hours and rates paid by the District. These differences in the amounts paid for these 4 employees resulted in \$733 undercharged to the program for the \$9,500 that was sampled from the program for these employees. These exceptions were as follows:
 - One employee's timesheet supported 75 hours but was paid for 74.5 hours, resulting in underpayment of \$10.
 - One employee's timesheets supported 88 hours but was paid for 84 hours, resulting in underpayment of \$144.
 - One employee's timesheets supported 88 hours but was paid for 80 hours, resulting in underpayment of \$263.
 - One employee's timesheet supported 80 hours but was paid for 72 hours, resulting in underpayment of \$316.
- 5 of the 50 employees sampled were unable to provide after-the-fact confirmation of the activities performed and salary allocated to the program or timesheets to support the hours charged. These 5 employees with unsupported salaries charged to the program totaled \$16,342. These exceptions were as follows:
 - Three hourly employees whose timesheets supported the hours paid; however, did not indicate the activities performed either direct or indirect to support the hours charged as a direct charge to the program.
 - Two salaried employee that was budgeted to the program for the year; however did not provide any after the fact confirmation or certification that the budgeted time was a fair representation of the actual time incurred from either the employee or their supervisor.
- 5 of the 50 employees completed after-the-fact certifications of the time expended on the program; however their percent of time dedication on these certifications did not support the salary charged to the program. These 5 employees sampled with unmatched allocations totaled \$4,658 charged to the program. These exceptions were as follows:
 - Four employees certified they expended 100% of their time on the program; however, only 50% was charged to the program resulting in \$3,079 not charged to the program.
 - One employee certified that he expended 90% of his time on the program; however, 92% was charged to the program resulting in \$67 overcharged to the program.
- 15 of the 50 employees sampled performed additional ancillary work to their regular assignment that was charged to the program. These 15 employees with unsupported or inadequately supported ancillary charges totaled \$58,280. These exceptions were as follows:
 - Five employees were paid as community service teachers; however, there is no documentation to support for this additional work performed.

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- Ten employees were paid for instructional development grants; however, there is no documentation from the employees' to support for the hours expended on the grants. The only support available was a summary worksheet the campus provides to the District payroll office that indicates the hours that should be paid, but this worksheet is not certified by anyone from the program or the employees that are being paid.

Total salary expenditures for this program amounted to \$1,925,690 for the fiscal year ended June 30, 2007.

Questioned Costs

\$74,739 of the \$116,419 sampled that was charged to the program (\$16,342 unsupported in accordance with A-21 personal services, \$67 overcharged from time allocation support and \$58,280 not supported by documentation.)

Possible asserted cause and effect

Adequate policies and procedures do not appear to be in place regarding time and effort documentation requirements or effective monitoring controls in place to assist with compliance.

In our discussions with District payroll personnel and in reviewing the District's policies and procedures for salaried employees entitled, *Time Administration Handbook for Time Reporting of Salaried Employees (revised July 5, 2005)*, we noted the current payroll process design assigns each employee to one or more program codes within the automated payroll system at beginning of each school/fiscal year. These assigned program codes are based on estimates of various work assignments that are expected to be performed by the employee throughout the year. Salaried employees generally follow negative time reporting throughout the year, whereas the employee is paid for regularly scheduled hours each pay cycle unless they notify the District of any changes in actual hours from scheduled hours. Hourly employees are required to complete semimonthly timesheets. We noted this automated system used for employees' time and effort only allows for employees to make changes in work schedules (i.e., hours worked) and does not allow for the employee to make changes in time expended from initial planned assignment program codes to actual programs worked. By not establishing a process for employees to make such changes using the automated system, manual procedures and procedures would be required to capture and reflect such changes in program assignments.

The District has implemented district-wide policies and procedures with regard to payroll processing, but has chosen not to include any specific guidance or forms that would require its employees to comply with time and effort documentation with regard to after-the-fact confirmation of program assignments (i.e., time certifications). The District has chosen to give each campus (and each federal program within each campus) autonomy to create their own methodology and forms in an attempt to comply with such requirements. In the absence of Districtwide policies and procedures to achieve consistency, there appears to be a wide disparity in processes and types of documentation that the campuses are preparing in an attempt to comply with the time and effort requirements. However, none of these campus processes sampled have incorporated notification of any differences between planned assignment and actual assignment to either the campus central time reporting office or District payroll office to make any necessary changes within the automated payroll system so that expenditures can be appropriately reflected within the various programs. The documentation prepared by the campuses appears to only be prepared and retained by the program office for audit purposes and not used to confirm differences in estimated

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planned assignments. We noted a number of exceptions related to employees that completed some sort of after-the-fact certifications but these confirmations of actual time were not reflected in the salary allocations that were charged to the program.

The risk of noncompliance significantly increases if there is no consistency in the types of documentation that is prepared by various programs at the multiple campuses since this documentation will be processed by either central time reporting employees at each campus or at the District office. Without clear prescriptive guidance, there is significant increased risk that the time charged to the program will not reasonably reflect the actual time expended.

We also noted there has been no monitoring system established to provide for independent internal evaluations to ensure the payroll system's effectiveness and compliance with the time and effort requirements.

Recommendations

We recommend the District strengthen existing policies, procedures, and controls to ensure that salary expenditures charged to the program are accurate and adequately supported.

Views of responsible officials and planned corrective actions

The District will provide additional training on time and effort procedures to ensure proper supporting documentation is maintained for payroll expenses charged to the higher education institutional aid program.

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Finding F-07-08 – Allowable Costs – Endowment Challenge Grant Program

Federal Program Information

<i>Federal Catalog Number:</i>	84.031
<i>Federal Program Name:</i>	Higher Education Institutional Aid
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles City College
<i>Federal Award Number and Award Year:</i>	P031S010051; October 1, 2006 to September 30, 2007

Criteria or requirement

Code of Federal Regulations, Title 34 – Education, Chapter VI – Office of Postsecondary Education, Department of Education, Part 628 – Endowment Challenge Grant Program – Subpart E – What Conditions Must a Grantee Meet Under the Endowment Challenge Grant Program?

- Section 628.42 – What may a grantee not use to match an endowment challenge grant? – To match an endowment challenge grant, a grantee may not use:
 - (a) A pledge of funds or securities;
 - (b) Deferred gifts such as a charitable remainder annuity trust or unitrust;
 - (c) Any federal funds;
 - (d) Any borrowed funds; or
 - (e) The corpus or income of an endowment fund or quasi-endowment fund existing at the closing date established by the Secretary for submission of eligibility requests under the Endowment Challenge Grant Program. This includes the corpus or income of an endowment or quasi-endowment fund established by a foundation if the foundation is tax-exempt and was established for the purpose of raising money for the institution.
- Section 628.41 What are the obligations of an institution that the Secretary selects to receive an endowment challenge grant?
 - (a) An institution that the Secretary selects to receive an endowment challenge grant shall:
 - (1) Enter into an agreement with the Secretary to administer the endowment challenge grant;
 - (2) Establish an endowment fund independent of any other endowment fund established by or for that institution;
 - (3) Deposit its matching funds in the endowment fund established under this part;

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- (4) Upon receipt, immediately deposit the grant funds into the endowment fund established under this part; and
 - (5) Within fifteen working days after receiving the grant funds, invest the endowment fund corpus.
- (b) Before the Secretary disburses grant funds and not later than a date established by the Secretary through a notice in the Federal Register (which date may not be later than the earlier of the last day of availability of appropriations or eighteen months after an institution has been notified that it has been selected to receive a grant), an institution shall:
- (1) Match, with cash or low-risk securities, the endowment challenge grant funds to be received under this part;
 - (2) Certify to the Secretary:
 - i. The source, kind, and amount of the eligible matching funds;
 - ii. That the matching funds are eligible under paragraph (b)(1) of this section and Section 628.42; and
 - (3) Have a certified public accountant or other licensed public accountant, who is not an employee of the institution, certify that the data contained in the application is accurate.

Condition found, including perspective

During our procedures performed over expenditures charged to the program, we selected a sample of expenditures charged by the various campuses to ascertain if they are allowable per applicable OMB cost circulars and program regulations. In our sample of 50 nonsalary expenditures, we noted 2 samples from Los Angeles City College that were claimed against the endowment challenge grant component of the program. The endowment challenge grant allows an eligible college to use up to 20% of its grant funds to establish or increase an endowment fund. The college must provide matching funds in an amount equal to or greater than the program funds used.

The two samples selected totaled \$79,549 and were recorded on June 29, 2007. Both were matched with the same contribution of \$195,774 from a Charitable Remainder Annuity Trust established on July 3, 1990 with Los Angeles City College Foundation (the Foundation) and Los Angeles City Harbor College Foundation among its beneficiaries. Notification of the passing of the trustee and the intention to liquidate the trust assets was made on March 30, 2006, with the funds being distributed on December 5, 2006. The funds received by the Foundation were deposited into its operating checking account on December 22, 2006. We were unable to obtain any documentation to support that the funds were subsequently transferred to an interest bearing restricted endowment account so that the principal was maintained and that interest earned was used for designated purposes.

The endowment challenge fund regulations indicate that charitable remainder annuity trust contributions do not qualify as eligible matching for this program. The regulations also indicate that the funds must be deposited into an independent endowment fund; however, the funds were deposited into the Foundation's operating checking account.

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Total amounts claimed under the endowment challenge fund were \$141,145 District wide, with \$119,695 of that amount claimed by Los Angeles City College.

Questioned Costs

\$79,549 of the \$193,868 total nonsalary program expenditures sampled

Possible asserted cause and effect

There does not appear to be effective understanding of rules and program regulations by either the District office or the college campuses, since the requests were made by the campus and the transactions were approved by the District office. There also appears to be a lack of understanding on how to properly record and account for irrevocable charitable remainder trusts and endowment fund contributions, which resulted in this contribution being recorded on a cash basis, instead an accrual basis when donated, and the funds not being deposited into a separate bank account. Without a thorough knowledge of the program rules and regulations and applicable accounting pronouncements, these funds were not properly claimed under the endowment challenge grant regulations.

Recommendations

We recommend the District strengthen policies, procedures, and communications with its college campuses to ensure that only allowable matching funds are claimed in the endowment challenge grant, irrevocable charitable remainder trusts are accounted for appropriately under U.S. generally accepted accounting principles, and that endowment contributions are deposited into segregated bank accounts.

Views of responsible officials and planned corrective actions

The amount of \$119,695 was designated as endowment development matching funds for Title V Endowment Challenge Grant. Per instructions from the U.S. Department of Education Program Monitor, the final performance report will be revised to reflect the change in matching funds by the Foundation. The District will continue to work with the Foundation to ensure full compliance with the endowment challenge grant regulations.

Finding F-07-09 – Equipment Management – Equipment Policies and Procedures

Federal program information

<i>Federal Catalog Number:</i>	84.031
<i>Federal Program Name:</i>	Higher Education Institutional Aid
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	West Los Angeles College, Los Angeles Mission College, Los Angeles Pierce College
<i>Federal Award Number and Award Year:</i>	P031S050038, P031S040010, P031S040034, P031S060049,

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P031A020161

October 1, 2006 to September 30, 2007 and
October 1, 2005 to September 30, 2006

Criteria or requirement

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C – Post-Award Requirements – Property Standards, Section .34 Equipment.

- The recipient's property management standards for equipment acquired with Federal funds and federally owned equipment shall include all of the following:
 - Equipment records shall be maintained accurately and shall include the following information:
 - (i) A description of the equipment.
 - (ii) Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number.
 - (iii) Source of the equipment, including the award number.
 - (iv) Whether title vests in the recipient or the federal government.
 - (v) Acquisition date (or date received, if the equipment was furnished by the federal government) and cost.
 - (vi) Information from which one can calculate the percentage of federal participation in the cost of the equipment (not applicable to equipment furnished by the federal government).
 - (vii) Location and condition of the equipment and the date the information was reported.
 - (viii) Unit acquisition cost.
 - (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the federal awarding agency for its share.
 - A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

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Condition found, including perspective

During our procedures performed over equipment management, we reviewed the District's fixed asset subledger that contained the cumulative listing of assets in use for the program by its campuses. Those records indicated 1,744 assets in use totaling \$1,136,953 among its campuses. Upon further analysis of the detail, which supported the asset totals, we noted that only 14 of those 1,744 assets that were listed contained an amount that was \$5,000 or greater. Our procedures performed over that equipment with listed amounts over \$5,000 resulted in the following:

- We were unable to obtain evidence that a physical inventory of equipment was performed during the past two years at all three campuses sampled (West Los Angeles College, Los Angeles Mission College, and Los Angeles Pierce College). We also noted there was no reconciliation being performed between the District office's cumulative listing of assets and the physical equipment located at the campuses.
- We sampled 11 of 14 assets that contained an amount \$5,000 or greater from the District's cumulative listing and reviewed supporting documentation for the actual unit cost of the asset. We noted only 4 of those 11 items sampled contained an individual unit cost of \$5,000 or greater with the remaining 7 assets being combined quantities of asset (i.e., 32 computers) that contained individual unit costs less than the \$5,000 (Los Angeles Pierce College).
- Per the physical inspection of the assets:
 - a. 3 of the 4 items that met the federal guidelines for capital equipment were not tagged with program specific identification tags which identified the assets as acquired with federal program funds, but did contain a District tag number that did not match the District's cumulative listing (Los Angeles Mission College).
 - b. 5 of the 11 samples contained no tag numbers (Los Angeles Pierce College).
 - c. Of the 14 total items listed with amounts \$5,000 or greater on the equipment inventory listing, only 5 asset line items contained inventory tag numbers; however, none of these tag numbers matched the tag numbers on the physical assets (West Los Angeles College, Los Angeles Mission College, Los Angeles Pierce College).

During our review of required annual performance reports sampled, we noted 3 of the 4 reports indicated equipment expenditures totaling \$201,950, \$159,460 and \$87,320 (Los Angeles Mission College and Los Angeles College). These reports appear to be overstating equipment expenditures if the District is using the federal equipment management basis of \$5,000 unit cost to report equipment expenditures.

After our analysis of the program assets, the total value of the four cumulative assets that meet the federal criteria subjecting them to equipment management regulations amounted to \$37,044 for the fiscal year ended June 30, 2007.

Questioned Costs

\$37,044 total assets subject to equipment management

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Possible asserted cause and effect

The District's process to capitalize its equipment appears to be based on invoice totals and not individual asset unit cost (i.e., 20 computer monitors totaling \$8,771.50 were recorded as one asset). Improper identification of equipment meeting the federal guidelines may cause inaccurate reporting of federal equipment.

There appears to be a disconnect between the District office and its campuses as to who should be performing the inventory requirements of equipment management. Our inquires at the campuses identified two of its campuses believed that the District office performed some sort of physical inventory count of the campuses assets (West Los Angeles College and Los Angeles Pierce College); however, the District indicated that this should be a campus function. Another one of its campuses indicated that they hired an outside consultant to perform the inventory; however, they were unable to provide a copy of the inventory performed nor was a copy provided to the District office (Los Angeles Mission College). Still another campus indicated that they did not have an individual responsible for ensuring that equipment is tagged (Los Angeles Pierce College).

We also noted the District does not have a policy that requires its campuses to submit physical inventories of its assets annually or biannually nor does it require any reconciliation of those inventories to the cumulative listing of assets maintained by the District office. Not performing physical inventories, reconciling physical equipment to the District's cumulative asset listing, or proper equipment tagging increases the risk of theft or misappropriation of program equipment.

Recommendations

We recommend the District strengthen polices and procedures to ensure that federal equipment management regulations are followed. These policies should include appropriate identification and tracking, physical inventories and reconciliation, and tagging of assets to promote accurate reporting and reduce the risk of misappropriation of assets of the program. We also recommend that the District provide guidance to its campuses to ensure that equipment purchases are accurately reported on their annual performance reports.

Views of responsible officials and planned corrective actions

The District is currently updating its fixed asset policies and procedures and will work with the colleges to ensure compliance with federal equipment management regulations.

Finding F-07-10 – Level of Effort – Supplement not Supplant

Federal Program Information

<i>Federal Catalog Number:</i>	84.031
<i>Federal Program Name:</i>	Higher Education Institutional Aid
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	West Los Angeles College, Los Angeles

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Mission College, Los Angeles Pierce
College

*Federal Award Number and Award
Year:*

P031A20161, P031S040034,
P031S060049, P031S040010,
P031S050038, P031S040010,

October 1, 2006 to September 30, 2007
October 1, 2005 to September 30, 2006
September 1, 2006 to August 31, 2007
September 1, 2005 to August 31, 2006

Criteria or requirement

Code of Federal Regulations, Title 34 – Education, Chapter VI – Office of Postsecondary Education, Department of Education, Part 607 – Strengthening Institutions Program-Subpart D – What Conditions Must a Grantee Meet? Section 607.30 What are allowable costs and what are the limitations on allowable costs?

- Supplement and not supplant. Grant funds shall be used so that they supplement and, to the extent practical, increase the funds that would otherwise be available for the activities to be carried out under the grant and in no case supplant those funds.

Condition found, including perspective

During our procedures performed to ascertain if the District used program funds to provide activities which they were required to make available under federal, state, or local law and were also made available by funds subject to a supplement not supplant requirement, or to provide activities that were provided with nonfederal funds in the prior year, we obtained the District’s spreadsheet analysis prepared to support its compliance with this requirement.

The analysis indicated that their total general unrestricted fund expenditures from nonfederal sources incurred at its nine campuses totaled approximately \$21 million for June 30, 2006 and \$24 million for June 30, 2007. Per discussion with the District, this analysis consisted of all general fund expenditures, which would include various state programs and general campus administration (i.e., CalWorks, TANF, salaries of campus dean, etc.). Since the analysis included all general fund expenditures and did not identify the amounts within the \$24 million that were expended to support the strengthening institution activities, we were unable to ascertain if the level of expenditures for grant activities carried out from District funds increased or decreased from the prior year.

Questioned Costs

Not applicable

Possible asserted cause and effect

Adequate monitoring controls do not appear to be in place by the District office to ensure that it retains sufficient documentation to support its analysis that no supplanting occurred.

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Recommendations

We recommend that the District enhance its current policies and procedures to ensure that its analysis contains only eligible activities and that adequate supporting documentation is retained.

Views of responsible officials and planned corrective actions

The District provided an analysis of expenditures for “related” functional activities that showed an increased level from the prior fiscal year for the general unrestricted fund while the higher education institutional aid institution program expenditures decreased from the prior fiscal year. The analysis supports that the District did not supplant existing programs. The District will clarify with the U.S. Department of Education to obtain more detailed audit/compliance guidelines with respect to the supplementing and not supplanting issue.

Finding F-07-11 – Procurement, Suspension and Debarment – Support for Cost and Price Analysis

Federal Program Information

<i>Federal Catalog Number:</i>	84.031
<i>Federal Program Name:</i>	Higher Education Institutional Aid
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles Harbor College, Los Angeles Mission College, Los Angeles Pierce College
<i>Federal Award Number and Award Year:</i>	P031S050038, P031S040034, P031A020161 October 1, 2005 to September 30, 2007

Criteria or requirement

Title 34 – Education, Part 74 – Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C – Post-Award Requirements, Section 74.45 Cost and price analysis.

Some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.

Condition found, including perspective

During our procedures performed over the program procurement transactions, we reviewed the District’s procurement policies to ascertain their policy in regards to purchase thresholds for required cost and price analysis to be performed in connection with a procurement transaction. The District’s policy requires three

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quotes to be obtained for purchases over \$5,000 and competitive bidding performed if the purchase exceeds \$69,000.

We sampled 50 program expenditures and requested support for the cost and price analysis performed and noted the following:

- Of the expenditures sampled from purchase orders of \$5,000 to \$69,000, which require three written quotations, we noted no documentation to support any quotations obtained for compliance of the policy for 4 of the 25 samples that exceeded \$5,000 (Los Angeles Harbor College).
- We also noted an additional 4 of the 50 samples that did not include written justification as to why quotations were not obtained (Los Angeles Mission College and Los Angeles Pierce College). We verbally obtained the justification for the nonquotations from the District purchasing manager. He informed us that these purchases were made from District preapproved vendors, which are generally multi-year agreements that are competitively bid after the end of each multi-year contract period.

Total nonsalary expenditures, which would be subject to procurement, suspension and debarment requirements, amounted to \$1,277,980 for the fiscal year ended June 30, 2007.

Questioned Costs

\$30,996 of the \$193,868 procurement transactions sampled that did not contain a written supporting cost and price analysis

Possible asserted cause and effect

Through our discussion with the District, we noted each of its nine campuses is given autonomy to develop their own policies and procedures to comply with required cost and price analyses. The District office does not perform any monitoring to ensure that its campuses are complying with required policies.

In reviewing a sample of the "purchase request guidelines" and the "purchase request form" (the form) that was developed by Los Angeles City College, we noted the college's policy indicates the requestor to complete the required form and attach copies of at least three quotes if the purchase is for supply or equipment purchases and exceeds \$5,000 or to document the name and date for any phone quotes obtained.

In reviewing the information requested to be completed on the form, we noted it does not have any designated space for the requestor to document the cost and price analysis performed or justification for decision made. The form also does not contain any designated space for the requestor to document the justification for any noncompetitive bidding (i.e., preapproved vendor, sole-source supplier, brand requirement, etc.). Not establishing clear prescriptive forms for its campuses to complete to support required procedures performed increases the risk that all required documentation to support cost and price analysis performed will not be retained.

Recommendations

We recommend that the District enhance current policies, procedures, forms, and monitoring controls to ensure that its campuses are in compliance with required cost and price analysis requirements.

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Views of responsible officials and planned corrective actions

The District concurs with this finding. The District provided additional training, including keeping all supporting documentation for price analysis, to ensure full compliance with the federal procurement guidelines.

Finding F-07-12 – Reporting – Annual Performance Reports

Federal Program Information

<i>Federal Catalog Number:</i>	84.031
<i>Federal Program Name:</i>	Higher Education Institutional Aid
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles Mission College, Los Angeles Pierce College
<i>Federal Award Number and Award Year:</i>	P031S040034, P031A020161, P031S050038, P031S040010 October 1, 2006 to September 30, 2007 October 1, 2005 to September 30, 2006

Criteria or requirement

Code of Federal Regulations, Title 34 – Education, Part 74 – Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C – Post-Award Requirements, Section 74.53 Retention and access requirements for records.

- Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Secretary.

Condition found, including perspective

During our performed procedures to ascertain the accuracy of the District’s college campuses annual performance reporting, we selected a sample of 30 expenditure line items reported on 4 of the performance reports that were issued from Los Angeles Mission College, Los Angeles Pierce College, and West Los Angeles College during the year ended June 30, 2007 for the previous award period of July 1, 2005 to June 30, 2006.

We noted the campuses did not maintain the original documentation used to create the performance reports and attempted to recreate the supporting documentation. We reviewed the supporting documentation provided by the District for the information reported and noted 26 of the 30 supporting documents provided from our sample did not match the amounts reported. These differences appeared to be due to

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manual adjustments made to the amounts recorded in the general ledger to adjust for obligations or salary accruals.

Questioned Costs

Not applicable

Possible asserted cause and effect

Effective monitoring controls do not appear to be in place to ensure that the colleges retain documentation to support required annual reporting.

Recommendations

We recommend the District strengthen policies and procedures to ensure that documentation to support required annual performance reporting is retained for the required retention period.

Views of responsible officials and planned corrective actions

The District will work with the colleges to ensure the necessary documentation is retained for the annual performance reports as well as the required retention period.

Finding F-07-13 – Allowable Costs – Salary Expenditures Charged to the Program

Federal Program Information

<i>Federal Catalog Number:</i>	84.042, 84.044, 84.047, 84.066
<i>Federal Program Name:</i>	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	Not applicable
<i>College:</i>	Los Angeles Valley College, Southwest Los Angeles College
<i>Federal Award Number and Award Year:</i>	P047A040728, P042A050419 September 1, 2006 to August 31, 2007

Criteria or requirement

OMB Circular A-21, *Cost Principles for Educational Institutions*, Part J General provisions for selected items of cost, Section 10 – Compensation for personal services, Payroll distribution – Criteria for Acceptable Methods.

- The payroll distribution system will:
 - (i) be incorporated into the official records of the institution;

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- (ii) reasonably reflect the activity for which the employee is compensated by the institution; and
 - (iii) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in subsection a need not be included.)
- The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and F&A (e.g., indirect) cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.
 - The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify F&A costs and the functions to which they are allocable. The activities chargeable to F&A cost categories or the major functions of the institution for employees whose salaries must be apportioned (see subsection b.(1)b)), if not initially identified as separate categories, may be subsequently distributed by any reasonable method mutually agreed to, including, but not limited to, suitably conducted surveys, statistical sampling procedures, or the application of negotiated fixed rates.
 - Practices vary among institutions and within institutions as to the activity constituting a full workload. Therefore, the payroll distribution system may reflect categories of activities expressed as a percentage distribution of total activities.
 - Direct and F&A charges may be made initially to sponsored agreements on the basis of estimates made before services are performed. When such estimates are used, significant changes in the corresponding work activity must be identified and entered into the payroll distribution system. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period.
 - The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.
 - For systems which meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.

Condition found, including perspective

During our procedures performed over expenditures charged to the program, we selected a sample of expenditures charged by the various campuses to ascertain if they are allowable per applicable OMB cost circulars and program regulations. In our sample of 50 salary expenditures, we noted the following exceptions:

- 1 of the 50 employees sampled contained an error in the hours paid by the District. The employee's timesheet supported 28 hours but was paid for 104 hours, resulting in overpayment of \$881, which was overcharged to the program.

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- 7 of the 50 salaried employees sampled were unable to provide after-the-fact confirmation of the activities performed and salary allocated to the program. These 7 employees with unsupported salaries charged to the program totaled \$19,357.

Total salary expenditures for this program amounted to \$2,522,786 for the fiscal year ended June 30, 2007.

Questioned Costs

\$20,238 of the \$114,737 sampled that was charged to the program (\$19,357 unsupported in accordance with A-21 personal services and \$881 overcharged based on timesheet support provided)

Possible asserted cause and effect

Adequate policies and procedures do not appear to be in place regarding time and effort documentation requirements or effective monitoring controls in place to assist with compliance.

In our discussions with District payroll personnel and in reviewing the District's policies and procedures for salaried employees entitled, *Time Administration Handbook for Time Reporting of Salaried Employees (revised July 5, 2005)*, we noted the current payroll process design assigns each employee to one or more program codes within the automated payroll system at beginning of each school/fiscal year. These assigned program codes are based on estimates of various work assignments that are expected to be performed by the employee throughout the year. Salaried employees generally follow negative time reporting throughout the year, whereas the employee is paid for regularly scheduled hours each pay cycle unless they notify the District of any changes in actual hours from scheduled hours. Hourly employees are required to complete semi-monthly timesheets. We noted this automated system used for employees' time and effort only allows for employees to make changes in work schedules (i.e., hours worked) and does not allow for the employee to make changes in time expended from initial planned assignment program codes to actual programs worked. By not establishing a process for employees to make such changes using the automated system, manual procedures and procedures would be required to capture and reflect such changes in program assignments.

The District has implemented district-wide policies and procedures with regard to payroll processing, but has chosen not to include any specific guidance or forms that would require its employees to comply with time and effort documentation with regard to after the fact confirmation of program assignments (i.e., time certifications). The District has chosen to give each campus (and each Federal program within each campus) autonomy to create their own methodology and forms in an attempt to comply with such requirements. In the absence of district-wide policies and procedures to achieve consistency, there appears to be a wide disparity in processes and types of documentation that the campuses are preparing in an attempt to comply with the time and effort requirements. However, none of these campus processes sampled have incorporated notification of any differences between planned assignment and actual assignment to either the campus central time reporting office or District payroll office to make any necessary changes within the automated payroll system so that expenditures can be appropriately reflected within the various programs. The documentation prepared by the campuses appears to only be prepared and retained by the program office for audit purposes and not used to confirm differences in estimated planned assignments. We noted a number of exceptions related to employees that completed some sort of after-the-fact certifications, but these confirmations of actual time were not reflected in the salary allocations that were charged to the program.

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The risk of noncompliance significantly increases if there is no consistency in the types of documentation that is prepared by various programs at the multiple campuses since this documentation will be processed by either central time reporting employees at each campus or at the District office. Without clear prescriptive guidance, there is significant increased risk that the time charged to the program will not reasonably reflect the actual time expended.

We also noted there has been no monitoring system established to provide for independent internal evaluations to ensure the payroll system's effectiveness and compliance with the time and effort requirements.

Recommendations

We recommend the District strengthen existing policies, procedures, and controls to ensure that salary expenditures charged to the program are accurate and adequately supported.

Views of responsible officials and planned corrective actions

The District will provide additional training on time and effort procedures to ensure proper supporting documentation is maintained for payroll expenses charged to the TRIO program.

Finding F-07-14 – Allowable Costs – Entertainment Expenses

Federal Program Information

<i>Federal Catalog Number:</i>	84.042, 84.044, 84.047, 84.066
<i>Federal Program Name:</i>	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	Southwest Los Angeles College
<i>Federal Award Number and Award Year:</i>	P047A040728 September 1, 2005 to August 31, 2008

Criteria or requirement

OMB Circular A-21 – *Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions*, Section J – General provisions for selected items of cost, Part 17 – Entertainment costs

- Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

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Condition found, including perspective

During our procedures performed over expenditures charged to the program, we selected a sample of 51 expenditures charged by the various campuses to ascertain if they are allowable per applicable OMB cost circulars and program regulations. In our sample of nonsalary expenditures, we noted 1 of the 9 upward bound samples from Southwest Los Angeles College was expended for the transportation costs to transport students to a local water park. These costs appear to be associated with entertainment costs that are unallowable per A-21.

Total nonsalary expenditures for this program amounted to \$1,162,235 for the fiscal year ended June 30, 2007.

Questioned Costs

\$650 of the \$63,794 total nonsalary program expenditures sampled

Possible asserted cause and effect

There does not appear to be a clear understanding of federal allowable cost principles by the college campuses, nor does their appear to be effective monitoring oversight or information communicated by the District office to provide guidance to its college campuses to ensure they are aware of appropriate allowable cost principles. Without a thorough knowledge of the cost principles, there is significant increased risk that unallowable expenditures will be claimed against the program.

Recommendations

We recommend the District strengthen policies, procedures, and communications with its college campuses to ensure that only allowable costs are claimed against the program.

Views of responsible officials and planned corrective actions

The District will strengthen policies and procedures with allowable costs to ensure no unallowable costs will be charged to a program.

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Finding F-07-15 – Eligibility – Approval of Participant Applications

Federal Program Information

<i>Federal Catalog Number:</i>	84.042, 84.044, 84.047, 84.066
<i>Federal Program Name:</i>	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	Southwest Los Angeles College
<i>Federal Award Number and Award Year:</i>	P047A040728; P044A021099; September 1, 2006 to August 31, 2007

Criteria or requirement

Code of Federal Regulations, Title 34 – Education, Part 75 – Direct Grant Programs – Subpart F – What Are the Administrative Responsibilities of a Grantee Section 75.702 Fiscal control and fund accounting procedures.

- A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C – Post-Award Requirements – Financial and Program Management, Section .21 Standards for financial management systems.

- Recipients' financial management systems shall provide for effective control over and accountability for all funds, property, and other assets.

Condition found, including perspective

During our procedures performed over the controls in place at the District's college campuses to ensure that eligible students participate in the Federal program, we sampled 90 students among the various programs of the TRIO cluster programs and reviewed the supporting documentation that evidenced the asserted controls in place. Through discussion with the campuses we noted student applications are processed by program specialists and reviewed and approved by the program's director.

In our sample of 90 student applications sampled among the college campuses, we noted 18 of the 90 total sampled applications did not contain evidence of the approval of the program director. These exceptions consisted of 5 of the 15 upward bound applications from Southwest Los Angeles College and 13 of the 15 talent search applications from Southwest Los Angeles College.

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Total program expenditures for these components of the Southwest Los Angeles College's programs amounted to \$250,727 for upward bound and \$287,009 for talent search for the fiscal year ended June 30, 2007.

Questioned Costs

Not applicable

Possible asserted cause and effect

Effective monitoring controls do not appear to be in place to ensure that all student applications are reviewed and approved with documented evidence of that approval be maintained. Not maintaining evidence of reviews and approvals increases the risk that ineligible participants may be participating in the Federally funded program.

Recommendations

We recommend that the District strengthen policies and procedures to ensure that evidence be maintained to support appropriate reviews and approvals of student applications to participate in the program.

Views of responsible officials and planned corrective actions

The District will strengthen policies and procedures to ensure that evidence is maintained to support appropriate reviews and approvals of student applications to participate in the program.

Finding F-07-16 – Procurement, Suspension and Debarment – Support for Cost and Price Analysis

Federal Program Information

<i>Federal Catalog Number:</i>	84.042, 84.044, 84.047, 84.066
<i>Federal Program Name:</i>	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles City College
<i>Federal Award Number and Award Year:</i>	P047A031089 September 1, 2006 to August 31, 2007

Criteria or requirement

Code of Federal Regulations, Title 34 – Education, Part 74 – Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C – Post-Award Requirements, Section 74.45 Cost and price analysis.

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- Some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability.

Condition found, including perspective

During our procedures performed over the program procurement transactions, we reviewed the District's procurement policies to ascertain their policy with regard to purchase thresholds for required cost and price analysis to be performed in connection with a procurement transaction. The District's policy requires three quotes to be obtained for purchases over \$5,000 and competitive bidding performed if the purchase exceeds \$69,000.

We sampled 42 program expenditures and requested support for the cost and price analysis performed. Of the expenditures sampled from purchase orders of \$5,000 to \$69,000 which require 3 written quotations, we noted no documentation to support any quotations obtained for compliance of the policy for 6 of the 7 samples that exceeded \$5,000 at Los Angeles City College's upward bound program.

Total nonsalary expenditures that would be subject to procurement, suspension and debarment requirements amounted to \$1,162,235 and of that amount \$76,178 was expended by Los Angeles City College's upward bound program for the fiscal year ended June 30, 2007.

Questioned Costs

\$9,480 of the \$63,794 procurement transactions sampled that did not contain a written supporting cost and price analysis

Possible asserted cause and effect

Through our discussion with the District, we noted each of its nine campuses is given autonomy to develop their own policies and procedures to comply with required cost and price analyses. The District office does not perform any monitoring to ensure that its campuses are complying with required policies.

In reviewing a sample of the "purchase request guidelines" and the "purchase request form" (the form) that was developed by Los Angeles City College, we noted the college's policy indicates the requestor to complete the required form and attach copies of at least three quotes if the purchase is for supply or equipment purchases and exceeds \$5,000 or to document the name and date for any phone quotes obtained.

In reviewing the information requested to be completed on the form, we noted it does not have any designated space for the requestor to document the cost and price analysis performed or justification for decision made. The form also does not contain any designated space for the requestor to document the justification for any noncompetitive bidding (i.e., preapproved vendor, sole-source supplier, brand requirement, etc.). Not establishing clear prescriptive forms for its campuses to complete to support required procedures performed increases the risk that all required documentation to support cost and price analysis performed will not be retained.

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Recommendations

We recommend that the District enhance current policies, procedures, forms and monitoring controls to ensure that its campuses are in compliance with required cost and price analysis requirements.

Views of responsible officials and planned corrective actions

The District concurs with this finding. The District provided additional training including keeping all supporting documentation for price analysis to ensure full compliance with the federal procurement guidelines.

Finding F-07-17 – Procurement, Suspension and Debarment – Suspension & Debarment Verification or Certification

Federal Program Information

<i>Federal Catalog Number:</i>	84.042, 84.044, 84.047, 84.066
<i>Federal Program Name:</i>	TRIO Cluster: Student Support Services, Talent Search, Upward Bound, Educational Opportunity Centers
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	N/A
<i>Campus:</i>	Los Angeles City College, Southwest Los Angeles College, Los Angeles Valley College, West Los Angeles College
<i>Federal Award Number and Award Year:</i>	P042A060475, P047A031089, P047A031090, P042A011136, P042A050419 September 1, 2006 to August 31, 2007

Criteria or requirement

Code of Federal Regulations, Title 34 – Education, Part 75 – Direct Grant Programs – Subpart F – What Are the Administrative Responsibilities of a Grantee? Sec.75.702 Fiscal control and fund accounting procedures.

- A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C – Post-Award Requirements – Financial and Program Management, Section .21 Standards for financial management systems.

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- Recipients' financial management systems shall provide for effective control over and accountability for all funds, property, and other assets.

Condition found, including perspective

During our procedures performed over the controls in place at the District's college campuses to ensure that expenditures charged to the federal program were not made with contractors that have been suspended or debarred, we made inquiries with the District and various campuses purchasing department personnel to ascertain its control processes in place. We noted each campus is responsible for its own verification of Excluded Parties List System (EPLS) for contracts that total up to \$69,000. Any contracts that exceed that amount are the responsibility of the District office that would perform the EPLS verification. Neither the campuses nor the District office retains documentation (i.e., print out from the website, handwritten note in the file with date and information searched, etc.) to support that this verification procedure was performed.

We also noted in our sample of 42 nonsalary expenditures one purchase order for \$40,242 that individually exceeded \$25,000 that did not contain a signed certification of nonsuspension or debarment, nor any evidence of verification of EPLS to ascertain if they were currently suspended or debarred.

Total nonsalary expenditures that would be subject to procurement, suspension and debarment requirements amounted to \$1,162,235 for the fiscal year ended June 30, 2007.

Questioned Costs

\$4,720 of the \$63,794 nonsalary expenditures sampled with purchase orders that exceeded \$25,000 but no evidence of signed certification of nonsuspension and/or debarment or evidence of verification of EPLS.

Possible asserted cause and effect

Through our discussion with the District, we noted each of its nine campuses is given autonomy to develop their own policies and procedures to comply with required suspension and debarment verification. The District office does not perform any monitoring to ensure that its campuses are complying with required policies.

In reviewing the purchase information requested to be completed on the "purchase request form" sampled from Los Angeles City College, we noted it does not have any designated space for the requestor to document the verification of the EPLS performed. Not establishing clear prescriptive forms for its campuses to complete to support required procedures performed increases the risk that all required documentation to support verification of EPLS performed will not be retained.

Recommendations

We recommend that the District enhance current policies, procedures, forms, and monitoring controls to ensure that its campuses are in compliance with required verification of EPLS requirements.

Views of responsible officials and planned corrective actions

The District will enhance current policies, procedures, forms, and monitoring controls to ensure that its campuses are in compliance with required verification of EPLS requirements.

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Finding F-07-18 – Allowable Costs – Salary Expenditures Charged to the Program

Federal Program Information

<i>Federal Catalog Number:</i>	84.048
<i>Federal Program Name:</i>	Vocational Education – Basic Grants to States
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	State of California Community Colleges Chancellor's Office
<i>Campus:</i>	Los Angeles Harbor College, Southwest Los Angeles College, Los Angeles Trade Technical College, Los Angeles Valley College, West Los Angeles College
<i>Federal Award Number and Award Year:</i>	06-C01-27; July 1, 2006 to August 31, 2007

Criteria or requirement

OMB Circular A-21, *Cost Principles for Educational Institutions*, Part J General provisions for selected items of cost, Section 10 – Compensation for personal services, Payroll distribution – Criteria for Acceptable Methods.

- The payroll distribution system will:
 - (i) be incorporated into the official records of the institution;
 - (ii) reasonably reflect the activity for which the employee is compensated by the institution; and
 - (iii) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in subsection a need not be included.)
- The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and F&A cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.
- The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify F&A costs and the functions to which they are allocable. The activities chargeable to F&A cost categories or the major functions of the institution for employees whose salaries must be apportioned (see subsection b.(1)b)), if not

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initially identified as separate categories, may be subsequently distributed by any reasonable method mutually agreed to, including, but not limited to, suitably conducted surveys, statistical sampling procedures, or the application of negotiated fixed rates.

- Practices vary among institutions and within institutions as to the activity constituting a full workload. Therefore, the payroll distribution system may reflect categories of activities expressed as a percentage distribution of total activities.
- Direct and F&A charges may be made initially to sponsored agreements on the basis of estimates made before services are performed. When such estimates are used, significant changes in the corresponding work activity must be identified and entered into the payroll distribution system. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period.
- The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.
- For systems which meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.

Condition found, including perspective

During our procedures performed over expenditures charged to the program, we selected a sample of expenditures charged by the various campuses to ascertain if they are allowable per applicable OMB cost circulars and program regulations. In our sample of 50 salary expenditures, we noted the following exceptions:

- 4 of the 50 employees sampled contained errors in the hours and rates paid by the District. These differences in the amounts paid for these 4 employees resulted in \$973 undercharged to the program for the \$4,710 that was sampled from the program for these employees. These exceptions were as follows:
 - One employee was paid the incorrect rate based on her position and years of service, resulting in underpayment of \$56.
 - One employee was paid the incorrect rate based on the support provided, resulting in underpayment of \$250.
 - One employee was incorrectly terminated on District's payroll system, resulting in underpayment of \$406.
 - One employee had a reduction in regular salary for hours of unpaid leave taken, however there was no support for the time deducted, therefore it would appear to be an underpayment of \$261.

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- 20 of the 50 employees sampled were unable to provide after-the-fact confirmation of the activities performed and salary allocated to the program or timesheets to support the hours charged. These 20 employees with unsupported salaries charged to the program totaled \$16,088. These exceptions were as follows:
 - 16 hourly employees whose timesheets supported the hours paid; however, did not indicate the activities performed either direct or indirect to support the hours charged as a direct charge to the program.
 - 4 salaried employees that was budgeted to the program for the year, however did not provide any after-the-fact confirmation or certification that the budgeted time was a fair representation of the actual time incurred from either the employee or their supervisor.
- 1 of the 50 employees sampled performed additional ancillary work to their regular assignment that was charged to the program. This employee was paid \$1,747 for an instructional development grants; however, there is no documentation from the employees' to support for the hours expended on the grants.

Total salary expenditures for this program amounted to \$1,929,716 for the fiscal year ended June 30, 2007.

Questioned Costs

\$17,835 of the \$54,752 sampled that was charged to the program (\$16,088 unsupported in accordance with A-21 personal services and \$1,747 not supported by documentation)

Possible asserted cause and effect

Adequate policies and procedures do not appear to be in place regarding time and effort documentation requirements or effective monitoring controls in place to assist with compliance.

In our discussions with District payroll personnel and in reviewing the District's policies and procedures for salaried employees entitled, *Time Administration Handbook for Time Reporting of Salaried Employees (revised July 5, 2005)*, we noted the current payroll process design assigns each employee to one or more program codes within the automated payroll system at beginning of each school/fiscal year. These assigned program codes are based on estimates of various work assignments that are expected to be performed by the employee throughout the year. Salaried employees generally follow negative time reporting throughout the year, whereas the employee is paid for regularly scheduled hours each pay cycle unless they notify the District of any changes in actual hours from scheduled hours. Hourly employees are required to complete semimonthly timesheets. We noted this automated system used for employees' time and effort only allows for employees to make changes in work schedules (i.e., hours worked) and does not allow for the employee to make changes in time expended from initial planned assignment program codes to actual programs worked. By not establishing a process for employees to make such changes using the automated system, manual procedures and procedures would be required to capture and reflect such changes in program assignments.

The District has implemented district-wide policies and procedures with regard to payroll processing, but has chosen not to include any specific guidance or forms that would require its employees to comply with time and effort documentation with regard to after the fact confirmation of program assignments (i.e., time

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certifications). The District has chosen to give each campus (and each federal program within each campus) autonomy to create their own methodology and forms in an attempt to comply with such requirements. In the absence of district-wide policies and procedures to achieve consistency, there appears to be a wide disparity in processes and types of documentation that the campuses are preparing in an attempt to comply with the time and effort requirements. However, none of these campus processes sampled have incorporated notification of any differences between planned assignment and actual assignment to either the campus central time reporting office or District payroll office to make any necessary changes within the automated payroll system so that expenditures can be appropriately reflected within the various programs. The documentation prepared by the campuses appears to only be prepared and retained by the program office for audit purposes and not used to confirm differences in estimated planned assignments. We noted a number of exceptions related to employees that completed some sort of after-the-fact certifications but these confirmations of actual time were not reflected in the salary allocations that were charged to the program.

The risk of noncompliance significantly increases if there is no consistency in the types of documentation that is prepared by various programs at the multiple campuses since this documentation will be processed by either central time reporting employees at each campus or at the District office. Without clear prescriptive guidance, there is significant increased risk that the time charged to the program will not reasonably reflect the actual time expended.

We also noted there has been no monitoring system established to provide for independent internal evaluations to ensure the payroll system's effectiveness and compliance with the time and effort requirements.

Recommendations

We recommend the District strengthen existing policies, procedures, and controls to ensure that salary expenditures charged to the program are accurate and adequately supported.

Views of responsible officials and planned corrective actions

The District will provide additional training on time and effort procedures to ensure proper supporting documentation is maintained for payroll expenses charged to the vocational education program.

Finding F-07-19 – Equipment Management – Equipment Policies and Procedures

Federal program information

<i>Federal Catalog Number:</i>	84.048
<i>Federal Program Name:</i>	Vocational Education – Basic Grants to States
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	State of California Community Colleges Chancellor's Office
<i>Campus:</i>	Los Angeles Harbor College, Southwest Los Angeles College, Los

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Angeles Trade Technical College

*Federal Award Number and Award
Year:*

06-C01-27; July 1, 2006 to August 31,
2007

Criteria or requirement

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C – Post-Award Requirements – Property Standards, Section .34 Equipment.

- The recipient's property management standards for equipment acquired with Federal funds and federally owned equipment shall include all of the following:
 - Equipment records shall be maintained accurately and shall include the following information:
 - (i) A description of the equipment.
 - (ii) Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number.
 - (iii) Source of the equipment, including the award number.
 - (iv) Whether title vests in the recipient or the federal government.
 - (v) Acquisition date (or date received, if the equipment was furnished by the federal government) and cost.
 - (vi) Information from which one can calculate the percentage of federal participation in the cost of the equipment (not applicable to equipment furnished by the federal government).
 - (vii) Location and condition of the equipment and the date the information was reported.
 - (viii) Unit acquisition cost.
 - (ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the federal awarding agency for its share.
 - A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.
 - A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency.

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Condition found, including perspective

During our procedures performed over equipment management, we reviewed the District's fixed asset subledger that contained the cumulative listing of assets in use for the program by its campuses. Those records indicated 7,896 assets in use totaling \$7,072,553 among its campuses. Upon further analysis of the detail which supported the asset totals, we noted that only 351 of those 7,896 assets that were listed contained an amount that was \$5,000 or greater. Our procedures performed over that equipment with listed amounts over \$5,000 resulted in the following:

- We were unable to obtain evidence that a physical inventory of equipment was performed during the past two years at all three campuses sampled (Los Angeles Harbor College, Los Angeles Southwest College, and Los Angeles Trade Technical College). We also noted there was no reconciliation being performed between the District office's cumulative listing of assets and the physical equipment located at the campuses.
- We sampled 42 of 351 assets that contained an amount \$5,000 or greater from the District's cumulative listing and reviewed supporting documentation for the actual unit cost of the asset. We noted only 19 of those 42 items sampled contained an individual unit cost of \$5,000 or greater with the remaining 23 assets being combined quantities of asset (i.e., 32 computers) that contained individual unit costs less than the \$5,000 (Los Angeles Harbor College, Los Angeles Southwest College, and Los Angeles Trade Technical College).
- Per the physical inspection of the assets:
 - 1 of the 42 items sampled was for a group of computer projectors that were purchased that totaled \$12,102. Two of those projectors had been reported stolen at the campus but not recorded in the accounting records or the equipment asset listing (Los Angeles Trade Technical College).
 - One campus had not tagged their equipment until they received notification that they were selected for audit in September 2007. These items were subsequently tagged to comply with requirements. (Los Angeles Harbor College).
 - Of the 351 total items listed with amounts \$5,000 or greater on the equipment inventory listing, none contained inventory tag numbers that could be used to reconcile with a physical inventory, if one had been taken.

During our review of required annual expenditure and progress report sampled, we noted the capital expenditures indicated \$1,218,434 and the asset report indicated \$1,232,118, however the actual assets per the Federal equipment management criteria appear to be only \$204,415. These reports appear to be overstating equipment expenditures due to the differences in criteria used to capture and report fixed asset data.

After our analysis of the program assets, the total value of the total cumulative assets that appear to meet the federal criteria subjecting them to equipment management regulations amounted to \$2,816,182 for the fiscal year ended June 30, 2007.

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Questioned Costs

\$2,816,182 assets subject to equipment management

Possible asserted cause and effect

The District's process to capitalize its equipment appears to be based on invoice totals and not individual asset unit cost (i.e., 20 computer monitors totaling \$8,771.50 were recorded as one asset). Improper identification of equipment meeting the federal guidelines may cause inaccurate reporting of federal equipment.

There appears to be a disconnect between the District office and its campuses as to the who should be performing the inventory requirements of equipment management. Our inquires at the campuses identified all three of its campuses sampled believed that the District office performed some sort of physical inventory count of the campuses assets (Los Angeles Harbor College, Los Angeles Southwest College, and Los Angeles Trade Technical College); however, the District indicated that this should be a campus function.

We also noted the District does not have a policy that requires its campuses to submit physical inventories of its assets annually or biannually nor does it require any reconciliation of those inventories to the cumulative listing of assets maintained by the district office. Not performing physical inventories, reconciling physical equipment to the District's cumulative asset listing, or proper equipment tagging increases the risk of theft or misappropriation of program equipment. Not recording thefts or misappropriations of assets in the accounting records causes inaccurate reporting and valuation of that equipment.

Recommendations

We recommend the District strengthen policies and procedures to ensure that federal equipment management regulations are followed. These policies should include appropriate identification and tracking, physical inventories and reconciliation, and tagging of assets to promote accurate reporting and reduce the risk of misappropriation of assets of the program. We also recommend that the District provide guidance to its campuses to ensure that equipment purchases are accurately reported on their annual performance reports.

Views of responsible officials and planned corrective actions

The District is currently updating its fixed asset policies and procedures and will work with the colleges to ensure compliance with federal equipment management regulations.

Finding F-07-20 – Procurement, Suspension, and Debarment – Suspension & Debarment Controls

<i>Federal Catalog Number:</i>	84.048
<i>Federal Program Name:</i>	Vocational Education – Basic Grants to States
<i>Federal Agency:</i>	U.S. Department of Education
<i>Pass-through Entity:</i>	State of California Community Colleges

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	Chancellor's Office
<i>Campus:</i>	Los Angeles Harbor College, Southwest Los Angeles College, Los Angeles Trade Technology College
<i>Federal Award Number and Award Year:</i>	06-C01-27, July 1, 2006 to August 31, 2007

Criteria or requirement:

Code of Federal Regulations, Title 34 – Education, Part 75 – Direct Grant Programs – Subpart F – What Are the Administrative Responsibilities of a Grantee? Section 75.702 Fiscal control and fund accounting procedures.

- A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for Federal funds.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C – Post-Award Requirements – Financial and Program Management, Section .21 Standards for financial management systems.

- Recipients' financial management systems shall provide for effective control over and accountability for all funds, property, and other assets.

Condition found, including perspective

During our procedures performed over the controls in place at the District's college campuses to ensure that expenditures charged to the federal program were not made with contractors that have been suspended or debarred, we made inquiries with District and various campuses purchasing department personnel to ascertain its control processes in place. We noted each campus is responsible for its own verification of Excluded Parties List System (ELPS) for contracts that total up to \$69,000. Any contracts that exceed that amount are the responsibility of the District office that would perform the ELPS verification. Neither the campuses nor the District office retains documentation (i.e., print out from the website, handwritten note in the file with date and information searched, etc.) to support that this verification procedure was performed.

Total nonsalary expenditures that would be subject to procurement, suspension and debarment requirements amounted to \$2,352,519 for the fiscal year ended June 30, 2007.

Questioned Costs

Not applicable

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Possible asserted cause and effect

Through our discussion with the District, we noted each of its nine campuses is given autonomy to develop their own policies and procedures to comply with required suspension and debarment verification. The District office does not perform any monitoring to ensure that its campuses are complying with required policies.

In reviewing the information requested to be completed on the “purchase request form” sampled from Los Angeles City College, we noted it does not have any designated space for the requestor to document the verification of the ELPS performed. Not establishing clear prescriptive forms for its campuses to complete to support required procedures performed increases the risk that all required documentation to support verification of EPLS performed will not be retained.

Recommendations

We recommend that the District enhance current policies, procedures, forms and monitoring controls to ensure that its campuses are in compliance with required verification of EPLS requirements.

Views of responsible officials and planned corrective actions

The District will enhance current policies, procedures, forms and monitoring controls to ensure that its campuses are in compliance with required verification of EPLS requirements.

SCHEDULE OF STATE FINDINGS AND RECOMMENDATIONS

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(4) Summary of State Findings and Recommendations

<u>Current year state findings and recommendations</u>	<u>Section</u>	<u>Finding numbers</u>
1 Apportionment for Instructional Service Agreements/Contracts – Employee Contracts or Agreements	423	S-07-01
2 State General Apportionment Required Data Elements – Census Reporting	424 and 426	S-07-02
3 State General Apportionment Required Data Elements – Apportionment Attendance Report	424	S-07-03
4 Concurrent Enrollment of K-12 Students in Community College Credit Courses – Course Advertisement	427	S-07-04
5 Concurrent Enrollment of K-12 Students in Community College Credit Courses – Teacher Minimum Qualifications	427	S-07-05
6 Concurrent Enrollment of K-12 Students in Community College Credit Courses – Approvals of Students to Attend Courses	427	S-07-06
7 Concurrent Enrollment of K-12 Students in Community College Credit Courses – K-12 Principal Certification of less than 5% Pupil Recommendation	427	S-07-07
8 Uses of Matriculation Funds – Allowable Expenditures	428	S-07-08
9 California Work Opportunity and Responsibility to Kids (CalWORKS) – Allowable Expenditures	433	S-07-09
10 California Work Opportunity and Responsibility to Kids (CalWORKS) – Supplement not Supplant	433	S-07-10
11 Minimum Conditions Standards of Scholarship – Published Regulations	436	S-07-11
12 Minimum Conditions Standards of Scholarship – Remedial Coursework Limitations	436	S-07-12
13 Minimum Conditions Standards of Scholarship – Course Repetition	436	S-07-13
14 Student Fees – Instructional Materials and Health Fees – Material Fees	437	S-07-14

S-07-01 – Apportionment for Instructional Service Agreements/Contracts (Section 423) – Employee Contracts or Agreements

State Criteria

California Code of Regulations, Title 5 Education, Division 6 California Community Colleges, Chapter 9 Fiscal Support, Subchapter 1 Attendance, Article 4 Support Documentation, Section 58030. Support Documentation.

- The governing board of each district shall adopt procedures that will document all course enrollment, attendance, and disenrollment information required by the provisions of this subchapter. Authorized procedures shall include rules for retention of support documentation, which will enable an

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independent determination regarding the accuracy of tabulations submitted by the district to the Chancellor's Office as the basis of its claim for State support. Such support documentation procedures shall provide for accurate and timely attendance and contact hour data and shall be so structured as to provide for internal controls.

- The governing board of each district shall, upon request, make available to the Chancellor's Office a copy of its authorized procedures for course enrollment, attendance, and disenrollment documentation.

California Code of Regulations, Title 5 Education, Division 6 California Community Colleges, Chapter 9 Fiscal Support, Subchapter 1. Attendance, Article 5 Attendance Accounting Standards, Section 58051.5. Reports for Apportionment; Prohibited Classes.

- No community college district may claim for purposes of state apportionment any classes:
 - (1) if the district receives full compensation for direct education costs for the class from any public or private agency, individual or group of individuals; or
 - (2) if the public or private agency, individual or group of individuals, with whom the district has a contract and/or instructional agreement, has received from other sources full compensation for the direct education costs for the conduct of the class; or
 - (3) if such classes are not located in facilities clearly identified in such a manner, and established by appropriate procedures, to ensure that attendance in such classes is open to the general public, except that students may be required to meet prerequisites which have been established pursuant to Sections 55002, 55201 and 55202.
- For classes that are not fully funded under contracts identified in paragraph (a)(2) and are claimed for apportionment purposes, the community college district shall require the contracting entity to certify that the direct education costs of the activity are not being fully funded through other sources.

California Code of Regulations, Title 5 Education, Division 6. California Community Colleges, Chapter 9 Fiscal Support, Subchapter 1 Attendance, Article 5 Attendance Accounting Standards, Section 58050. Conditions for Claiming Attendance.

- (a) All of the following conditions must be met in order for the attendance of students enrolled in a course to qualify for state apportionment:
 - (1) The course or the program of which it is a part must be approved by the Board of Governors in accordance with the provisions of article 2 (commencing with section 55100) of subchapter 1, chapter 6.
 - (2) The course must meet the criteria and standards for courses prescribed by section 55002
 - (3) Unless expressly exempted by statute, the course must be open to enrollment by the general public, in accordance with section 58051.5 and article 1 (commencing with section 58100) of subchapter 2 of this chapter.

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- (4) The district may not receive full compensation for the direct education costs for the course from any public or private agency, individual, or group of individuals in accordance with section 58051.5.
- (5) The students enrolled in the course must be engaged in educational activities required of such students as described in the course outline of record. The number of contact hours for which apportionment is claimed shall not exceed the number specified in the course outline of record, subject to computation adjustments authorized pursuant to other provisions of this subchapter including, but not limited to, sections 58003.1, 58023, and 58164. If the course involves student use of district computers, other equipment, or facilities, the district shall monitor usage of such equipment or facilities as part of the course to ensure that they are used solely for the specified educational activities.
- (6) The students must be under the immediate supervision of an employee of the district, unless provided otherwise by law.
- (7) The employee of the district must hold valid and unrevoked credentials or be employed pursuant to minimum standards adopted by the board of governors or equivalencies pursuant to Section 53430 authorizing the employee to render service in the capacity and during the period in which the employee served.

California Code of Regulations, Title 5 Education, Division 6. California Community Colleges, Chapter 9 Fiscal Support, Subchapter 1 Attendance, Article 5 Attendance Accounting Standards, Section 58058 Employee of the District.

- (a) A person is an “employee of the district” within the meaning of subdivision (a)(1) of Section 58051 if:
 - (1) The district has the primary right to control and direct the person’s activities during the time such person is serving the district; and
 - (2) A contract exists between the person and the district, indicia of which may include provisions which specify the terms and conditions of work, salary and other compensation, work to be performed, and employment classification; and,
 - (3) The district compensates the person according to an adopted salary or wage schedule, which complies with the provisions of Article 8 (commencing with Section 87801), Chapter 3, Part 51 of the Education Code.
- (b) For the purposes of complying with the requirements of this section, a district may also contract for instruction to be provided by a public or private agency. Such contracts shall specify that the district has the primary right to control and direct the activities of the person or persons furnished by the public or private agency during the term of the contract. In addition, the district shall enter into a written contract with each person furnished by the public or private agency; and said contracts shall meet the requirements of subsection (a)(1) and (2) of this section. In this manner an individual employed will continue to be an employee of a public or private agency, while at the same time qualifying as an employee of the district.

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Identified Condition

During our procedures performed over apportionment payments received for sections taught under instructional service agreements, we requested a complete listing of all sections that the District is receiving FTES apportionment payments taught under instructional service agreements. The District does not have a tracking mechanism in place to ascertain how many sections that are conducted under an instructional agreement/contract, nor can they identify if these sections are being held on or off its campuses. In order for us to perform our required procedures, we selected from each campuses' self disclosure of all sections claimed for FTES apportionment, which were being taught under instructional service agreements. We were unable to verify the completeness of these listings provided; therefore, there may be sections that were not subject to sampling that may not be in compliance with requirements for claiming FTES apportionment that would not be detected.

Through our discussions with the District we noted each college campus is allowed to develop their own coding of courses/sections taught under instructional service agreements in the District's student information system. This results in the District being unable to easily identify these types of courses and must rely upon the College's manual identification and reporting of these types of courses to the District office. Without effective control policies in place over the identification and compilation of sections that are being taught under Instructional Service Agreements, the District will be unable to adequately monitor compliance for each college campuses in claiming these courses for apportionment. This is a repeat finding from June 30, 2006 (S-06-02) and 2005 (S-05-03).

In our procedures performed over the verification of employee contracts/agreements, we noted that the District was unable to provide copies of written contracts/instructional agreements for 2 of 60 employee sampled which were employed under the fire fighting program instructional service agreement subcontracts with public or private agencies. In addition we were unable to obtain adequate supporting documentation for 3 of the 60 employees sampled which were employed under the nursing program instructional agreements to support they were finalized before the start date of employment, since the copies that were provided were not fully executed (i.e., signatures). We also noted the District was unable to provide documentation for two of the same employees to support their compliance with meeting the minimum educational qualifications for instructing these sections.

These exceptions appear to be the result of ineffective document retention policies at the college campuses and/or the District office. By not maintaining documentation to support the existence and qualifications of these employee agreements, it would appear that the District was inappropriately paying salaries to either unqualified or nonemployees of the District.

Full-Time Equivalent Students (FTES) Impact

389.85 FTES exceptions for sections taught by instructors sampled without valid agreements (4.35 FTES fire fighting program + 385.5 FTES nursing program)

Questioned Costs

\$1,505,047 [389.85 FTES x \$3,860.58 (which includes 31.15 FTES or \$120,257 without minimum qualifications or valid agreements)]

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Recommendation for Corrective Action

We recommend that the District strengthen polices and procedures by developing a more formally structured course/section coding system for the colleges so that the District can more accurately and completely track and report courses taught under instructional service contracts agreements or on an off campus facility, which would include classes taught on high school campuses.

We also recommend the District strengthen its controls over its document retention policies at both the college campuses and at the District office to ensure that it properly maintains required documentation to support compliance with applicable rules and regulations.

District Response

The District concurs with this finding. Information Technology and Admissions and Records will be consulted to identify a field that may be adapted for flagging instructional service agreement sections. While the section information system already contains a field for identifying off-campus sections, the District will develop a mechanism for colleges to more easily extract this type of information.

The District will strengthen its controls over its document retention policies at both the college campuses and at the District office to ensure that it properly maintains required documentation to support compliance with applicable rules and regulations.

S-07-02 State General Apportionment Required Data Elements (Section 424) and Students Actively Enrolled (Section 426) – Census Reporting

State Criteria

California Code of Regulations, Title 5 Education, Division 6 California Community Colleges, Chapter 9 Fiscal Support, Subchapter 1 Attendance, Article 4 Support Documentation, Section 58030. Support Documentation.

- The governing board of each district shall adopt procedures that will document all course enrollment, attendance, and disenrollment information required by the provisions of this subchapter. Authorized procedures shall include rules for retention of support documentation which will enable an independent determination regarding the accuracy of tabulations submitted by the district to the Chancellor's Office as the basis of its claim for state support. Such support documentation procedures shall provide for accurate and timely attendance and contact hour data and shall be so structured as to provide for internal controls.
- The governing board of each district shall, upon request, make available to the Chancellor's Office a copy of its authorized procedures for course enrollment, attendance, and disenrollment documentation.
- California Code of Regulations, Title 5 Education, Division 6 California Community Colleges, Chapter 9 Fiscal Support, Subchapter 1 Attendance, Article 2 Attendance Reporting Procedures, 58004. Application of Census Procedures.
- Districts shall, according to procedures adopted by the governing board, clear the rolls of inactive enrollment. Inactive enrollment in a course is defined as follows:

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As of each census day, any student who has

- (1) Been identified as a no show, or
- (2) Officially withdrawn from the course, or
- (3) Been dropped from the course. A student shall be dropped if no longer participating in the course, except if there are extenuating circumstances. "No longer participating" includes, but is not limited to, excessive unexcused absences but must relate to nonattendance. "Extenuating circumstances" are verified cases of accidents, illness, other circumstances beyond the control of the student, and other conditions defined by the governing board and published in regulations. The "drop date" shall be the end of business of the day immediately preceding the census day.

Identified Condition

During our procedures performed over testing the accuracy of the data generated from the student information system (SIS) reports used to claim FTES apportionments, we reviewed supporting documentation for 30 course sections. We noted that 9 of 30 sections sampled, which contained a total of 1,913 students were not supported or did not agree with the District supporting documentation. These differences consisted of the following:

- (a) Two sections with 2 of the 70 required student add permits required for the 18 sections that had students who were not included in the rosters due to timing differences from the dates printed and census date were unable to be located by the campuses to support that the students added sections before the census date.
- (b) Three sections with 22 students that were reported as inactive on the "exclusion roster" were not properly deducted from the final census enrollment counts, and thus were not properly reflected in the SIS system used to generate the FTES reports.
- (c) One section with 33 students that reported 5 daily hours for the section; however the timing per the class schedule was starting 11:50 a.m. and ending 4:20 p.m., which amounts to only 4.7 hours.
- (d) Three sections of positive attendance with 373 students contained 16 manual errors where the bubbled scanton did not match written hours indicated on the positive attendance hours/grade selection forms

These errors appear to have occurred within the manual elements of the District's census attendance process (i.e., manually keying in data instead of scanning, failing to process, etc.). The District monitoring controls did not identify the manual overrides of the automated processes, which were performed by the campus attendance offices. We did not identify any controls at the college campuses to ensure the accuracy of the manual data input into the SIS system. The district monitoring controls over document retention were not sufficient to ensure that all adjustment documentation (i.e., student add permits) were retained to support apportionment claimed.

Total reported FTES for the fiscal year ended June 30, 2007 amounted to 102,351.

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Full-Time Equivalent Students (FTES)

3.30 FTES of the 159.79 FTES sampled (3.72 FTES overstated – 0.42 FTES understated)

Questioned Costs

\$12,740 (3.30 FTES exceptions x \$3,860.58)

Recommendation for Corrective Action

We recommend the District strengthen its control processes to help ensure that accurate and complete information for FTES is compiled accurately.

District Response

The District concurs with this finding. Admissions and Records, Academic Affairs and Information technology will be consulted on how to improve processes so that FTES are compiled accurately and with the proper document retention.

S-07-03 State General Apportionment Required Data Elements (Section 424) – Apportionment Attendance Report

State Requirement

California Code of Regulations, Title 5 Education, Division 6 California Community Colleges, Chapter 9 Fiscal Support, Subchapter 1 Attendance, Article 4 Support Documentation, Section 58030. Support Documentation.

- The governing board of each district shall adopt procedures that will document all course enrollment, attendance, and disenrollment information required by the provisions of this subchapter. Authorized procedures shall include rules for retention of support documentation, which will enable an independent determination regarding the accuracy of tabulations submitted by the district to the Chancellor's Office as the basis of its claim for State support. Such support documentation procedures shall provide for accurate and timely attendance and contact hour data and shall be so structured as to provide for internal controls.
- The governing board of each district shall, upon request, make available to the Chancellor's Office a copy of its authorized procedures for course enrollment, attendance, and disenrollment documentation.

Identified Condition

During our procedures performed over the accuracy of the FTES students reported in the *California Community Colleges 2006-2007 Apportionment Attendance Report (CCFS-320)* (the Report), we traced FTES reported for summer sessions and primary sessions for the three attendance compilation methods (i.e., census, actual hours, independent study) to supporting documentation to ascertain the accuracy of the FTES reported.

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In our sample of *Attendance FTES of State Residents* from the report we noted two discrepancies in the supporting documentation from the FTES reported as follows:

EDP No.	Description	Reported Attendance FTES	Supporting Documentation for FTES	(Under)/Over Reported FTES
02	Summer Intersession (Summer 2006 only)	10,450.97	10,456.10	(5.13)
08	Primary Terms – Actual Hours of Attendance Procedure Courses – Credit	5,272.25	5,275.33	(3.08)
	Net difference			<u>(8.21)</u>

There does not appear to be adequate monitoring controls in place to ensure accuracy of the FTES reported on the 320 report.

Full-Time Equivalent Students (FTES) Impact

(8.21 FTES) under reported

Questioned Costs

(\$31,695 under) (8.21 FTES x \$3,860.58)

Recommendation for Corrective Action

We recommend that the District implement policies and procedures to ensure the accuracy and completeness of the resident students contained in the Report.

District Response

The District concurs with this finding. Attendance Accounting will conduct a thorough review of procedures, reports and formulas to ensure accuracy of FTES reported.

S-07-04 Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – Course Advertisement

State Requirement

California Education Code Section 76002. – For the purposes of receiving state apportionments, a community college district may include high school pupils who attend a community college within the district pursuant to Sections 48800 and 76001 in the district’s report of FTES only if those pupils are enrolled in community college classes that meet all of the following criteria:

- (1) The class is open to the general public.

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- (2) (A) The class is advertised as open to the general public in one or more of the following:
- (a) The college catalog.
 - (b) The regular schedule of classes.
 - (c) An addenda to the college catalog or regular schedule of classes.
- (B) If a decision to offer a class on a high school campus is made after the publication of the regular schedule of classes, and the class is solely advertised to the general public through electronic media, the class shall be so advertised for a minimum of 30 continuous days prior to the first meeting of the class.
- (3) If the class is offered at a high school campus, the class may not be held during the time the campus is closed to the general public, as defined by the governing board of the school district during a regularly scheduled board meeting.
- (4) If the class is a physical education class, no more than 10% of its enrollment may be comprised of special part-time or full-time students. A community college district may not receive state apportionments for special part-time and full-time students enrolled in physical education courses in excess of 5% of the district's total reported full-time equivalent enrollment of special part-time and full-time students.

Identified Condition

During our procedures performed over concurrent enrollment, we noted that 3 of the 50 sections sampled with concurrently enrolled students did not have supporting documentation for required public advertising. These exceptions were as follows:

- Two sections for physical education and Spanish at Los Angeles City College were not listed in the college's schedule of classes, nor was the college able to provide documentation that supported that the classes were alternatively posted on the college website.
- One section of psychology class at Los Angeles Valley College that was decided to be offered after the publication of the regular schedule of classes and the college was unable to provide documentation to support that the course was advertised for at least 30 continuous days prior to the first meeting of the class.

California Community Colleges Chancellor's Office Legal Advisory 05-01 recommends the District to maintain dated hardcopy printouts of the Web postings on file for audit purposes for a period of at least three years. There does not appear to be adequate training for its campuses for documentation to be retained nor does there appear to be sufficient monitoring by the District to ensure that campuses are following required policies.

Total FTES claimed for concurrently enrolled K-12 students amounted to 4,780 for the fiscal year ended June 30, 2007.

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Full-Time Equivalent Students (FTES) Impact

10.38 FTES exceptions of 162.92 FTES sampled

Questioned Costs

\$40,073 (10.38 FTES exceptions x \$3,860.58)

Recommendation for Corrective Action

We recommend that the District strengthen controls to ensure supporting documentation for public notification of all courses including any Web site postings is retained for the required document retention period.

District Response

The District concurs with this finding. The District now has a formal group of Scheduling Deans with whom this issue will be consulted for advice on best practices and training.

S-07-05 Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – Teacher Minimum Qualifications

State Criteria

California Code of Regulations, Title 5 Education, Division 6 California Community Colleges, Chapter 9 Fiscal Support, Subchapter 1 Attendance, Article 5 Attendance Accounting, Standards, Section 58060 Valid Employment Qualifications:

For the purposes of Sections 58051 and 58056, the employee is deemed authorized to perform the services because he or she is employed pursuant to a valid, unrevoked credential issued by the Board of Governors or pursuant to minimum qualifications adopted by the Board of Governors or equivalencies pursuant to Section 53430.

- (a) If the person serves pursuant to a credential:
 - (1) It must authorize the holder to provide instruction in the particular subject matter or matters; and
 - (2) It must authorize the holder to provide that instruction during the period in which the holder is providing it.
- (b) If the person serves pursuant to minimum qualifications adopted by the Board of Governors or equivalencies, the qualifications or equivalencies must be related to the assignment and effective during the period of instruction for which attendance is being claimed.

Identified Condition

During our procedures performed over the qualifications of instructors teaching sections with concurrently enrolled students, we noted that 1 of our 50 instructors sampled did not meet the minimum qualification requirements. This instructor from Los Angeles Harbor College was teaching a physics course but was

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qualified to teach chemistry and not physics. The human resources department at the District office determined the nonqualification of this instructor after the semester began and informed the college of the instructor's nonqualification; however, the instructor continued to teach the course through the end of the semester.

Through our discussions with the District we noted there are no controls in place to ensure that teachers meet the minimum qualifications before they begin their teaching assignment, nor are there any policies or procedures in place to address determinations of unqualified teachers that are made after the semester has already begun.

Total FTES claimed for concurrently enrolled K-12 students amounted to 4,780 for the fiscal year ended June 30, 2007. This is a repeat finding from June 30, 2006 (S-06-04).

Full-Time Equivalent Students (FTES) Impact

3.21 FTES exception for section taught by unqualified instructor of the 162.92 FTES sampled

Questioned Costs

\$12,392 (3.21 FTES taught by the teacher x \$3,860.58)

Recommendation for Corrective Action

We recommend the District implement policies and procedures to ensure that instructors meet the minimum credential qualifications before the courses are scheduled to begin.

District Response

The District concurs with this finding. Academic Vice Presidents will be consulted on the best methods to ensure the instructors are properly evaluated prior to instruction.

S-07-06 Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – Approvals of Students to Attend Courses

State Requirement

California Education Code, Section 48800

- (a) The governing board of a school district may determine which pupils would benefit from advanced scholastic or vocational work. The intent of this section is to provide educational enrichment opportunities for a limited number of eligible pupils, rather than to reduce current course requirements of elementary and secondary schools, and also to help ensure a smoother transition from high school to college for pupils by providing them with greater exposure to the collegiate atmosphere. The governing board may authorize those pupils, upon recommendation of the principal of the pupil's school of attendance, and with parental consent, to attend a community college during any session or term as special part-time or full-time students and to undertake one or more courses of instruction offered at the community college level.

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Identified Condition

During our procedures performed over the K-12 students that were concurrently enrolled in community college courses, we selected a sample of identified K-12 enrolled students to ascertain if these students received the appropriate required approvals from all applicable parties prior to enrolling in the community college course. The District policy requires students in the K-12 age group to complete the *Supplemental Application for Admission of Students in Grades K-12* (the Application) for admission and registration to the college. The Application contains student and requested course information along with required signatures for the student, parent, K-12 principal, and the college chief instructional officer (or designee). In our sample of 50 Applications, we noted 18 of the 50 did not contain the approval of the Chief Instructional Officer (or designee) of the college. These 18 exceptions noted were from the following campuses:

- 3 of the 10 Applications sampled from East Los Angeles College
- 3 of the 3 Applications sampled from Los Angeles Mission College
- 1 of the 7 Applications sampled from Los Angeles Pierce College
- 7 of the 7 Applications sampled from Los Angeles Valley College
- 4 of the 4 Applications sampled from West Los Angeles College

Since the colleges have the authority to impose enrollment restrictions (i.e. not approving the admission of students for such reasons as age or grade level restrictions, etc.) the documented evidence of the college's approval is necessary support. There does not appear to be appropriately designed monitoring controls in place at the college campuses to ensure that these Applications are fully executed before the student enrolls in the community college course, which increases the risk that inappropriate K-12 students may enroll.

Total FTES claimed for concurrently enrolled K-12 students amounted to 4,780 for the fiscal year ended June 30, 2007.

Full-Time Equivalent Students (FTES) Impact

2.56 FTES exceptions of the 6.02 FTES sampled students

Questioned Costs

\$9,883 (2.56 FTES exceptions x \$3,860.58)

Recommendation for Corrective Action

We recommend that the District strengthen existing control process to ensure that all Applications are completed with required documented approvals before the students enroll at the colleges.

District Response

The District concurs with this finding. District Admissions and Records committee will be advised on this requirement so that all applications are completed with required documentation.

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S-07-07 Concurrent Enrollment of K-12 Students in Community College Credit Courses (Section 427) – K-12 Principal Certification of less than 5% Pupil Recommendation

State Requirement

California Education Code, Section 48800

- (1) The principal of a school may recommend a pupil for community college summer session only if that pupil meets all of the following criteria:
 - (a) Demonstrates adequate preparation in the discipline to be studied.
 - (b) Exhausts all opportunities to enroll in an equivalent course, if any, at his or her school of attendance.
- (2) For any particular grade level, a principal may not recommend for community college summer session attendance more than 5% of the total number of pupils who completed that grade immediately prior to the time of recommendation.

Identified Condition

The District has not developed or adopted formal policies or procedure to require certifications from K-12 principals to satisfy the requirement for 5% limitation of student recommendations for summer session attendance in community colleges. We also noted that the District does not perform any internal analysis to ascertain compliance over that requirement in lieu of receipt of that principal's certification.

Questioned Costs

Not applicable

Recommendation for Corrective Action

We recommend that the campuses develop policies and procedures to obtain required certifications or develop alternative procedures to support compliance with this requirement.

District Response

The District concurs with this finding. The District has recently had to update the young student supplemental information form and distribute it to colleges for immediate use. In addition to the principal's certification, the updated form contains critical changes that require colleges use the "new" version.

S-07-08 Uses of Matriculation Funds (Section 428) – Allowable Expenditures

State Requirement

California Code of Regulations, Title 5. Education, Division 6. California Community Colleges, Chapter 6. Curriculum and Instruction, Subchapter 6. Matriculation programs, article 2. Planning and administration, Section 55512. Evaluation and Audits.

- Each district shall also, as part of its annual financial audit, provide for a review of the revenue and expenditures of the matriculation program.

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- The Chancellor shall establish a system for evaluation of the matriculation program on a statewide basis, including procedures for monitoring compliance with the requirements of this subchapter.

Identified Condition

During our procedures performed over expenditures that were charged against the credit and noncredit matriculation plans, we sampled 50 expenditures charged to the program to ascertain if expenditures were used for eligible program purposes. We noted 1 of the 26 employee salary samples where the hours paid to the employee were greater than the hours that were supported by the timesheet.

There does not appear to be effective monitoring controls over the payroll process to ensure the accuracy of amounts paid to employees that are charged to the State-funded program. Total expenditures for matriculation amounted to \$7,578,941, with approximately 80% of that amount expended for salaries for the fiscal year ended June 30, 2007.

This is a repeat finding from June 30, 2006 (S-06-12).

Questioned Costs

\$145 of the \$199,043 expenditures sampled

Recommendation for Corrective Action

We recommend that the District enhance current policies and procedures to ensure the accuracy of amounts paid to employees.

District Response

The District concurs with this finding. The District is enhancing current policies and procedures to help resolve payroll issues noted in the processing of salary disbursements.

S-07-09 California Work Opportunity and Responsibility to Kids (CalWORKS) Use of CalWORKS State Funds and CalWORKS Federal Temporary Assistance for Needy Families (TANF) Funds (Section 433) – Allowable Expenditures

State Criteria

California Education Code, Section 79203

To the extent that funding is provided in the annual Budget Act, funds received by a community college for curriculum development or redesign for CalWORKs recipients may be expended for all of the following purposes:

- (a) To develop or redesign vocational curricula for CalWORKs recipients so that courses may be offered as part of a short-term intensive program, including Open Entry and Open Exit programs, and including intensive English language immersion.
- (b) To link CalWORKs courses to job placement through work experience and internships.

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- (c) To redesign basic education and ESL classes so that they may be integrated with vocational training programs.
- (d) To expand the use of telecommunications in providing the new curricula to CalWORKs recipients.

Identified Condition

In our procedures performed over the CalWORKS expenditures and related activities that were charged to the program, we sampled 50 expenditures to ascertain if expenditures were used for eligible program purposes. We noted in 5 of the 21 employee salary samples where the amounts paid to the employees under the program were incorrect. The exceptions noted were due to the following situations: incorrect rates used by the District, hours on the timesheet did not agree to the hours paid, and no documentation to support hourly rates paid to employees. We also noted one additional employee who was assigned and worked for the Upward Bound program, however was inappropriately charged to the CalWORKS program.

There does not appear to be effective monitoring controls over the payroll process to ensure the accuracy of amounts paid to employees that are charged to the State funded program. Total expenditures for CalWORKS amounted to \$5,201,583, with approximately 70% of that amount expended on payroll for the fiscal year ended June 30, 2007.

This is a repeat finding from June 30, 2006 (S-06-08).

Questioned Costs

\$713 of the \$141,636 sampled (\$3,065 overpaid – \$3,134 underpaid + \$782 inappropriately charged)

Recommendation for Corrective Action

We recommend that the District enhance current policies and procedures to ensure that amounts paid to employees are accurate and charged to the appropriate program.

District Response

The District concurs with this finding. The District is enhancing current policies and procedures to help resolve payroll issues noted in the processing of salary disbursements.

S-07-10 California Work Opportunity and Responsibility to Kids (CalWORKs) Use of CalWORKs State Funds and CalWORKs Federal Temporary Assistance for Needy Families (TANF) Funds (Section 433) – Supplement not Supplant

State Criteria

California Community Colleges Systems Office, Chancellor's Office Letter, March 13, 2006, *Clarification on CalWORKs Supplantation Prohibition*

Based on our review of the law, we have determined that CalWORKs funds can only be used to meet the needs of the CalWORKs student population if the service provided is:

- (1) New and did not exist prior to 1997-98

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- (2) Different than what was provided in 1997-98 or enhanced to meet the needs of the CalWORKS student population; or
- (3) Expanded to meet the needs of an increased number of CalWORKs students using the service.

Questions to answer to determine whether CalWORKs funds are being used appropriately (in accordance with the antisupplantation rule):

- (1) Is the service one of the allowable activities identified in law and by the CalWORKS Program Allowable Cost Guidelines.
- (2) Was the college providing the service prior to 1997-98?
 - (a) If the answer is “no,” then a supplantation issue does not exist.
 - (b) If the answer is “yes,” then the college must demonstrate that:
 - (i) It is serving an increased number of welfare recipient-students and can then only pay for the difference in the increased cost of expanding an existing service. or;
 - (ii) The college can show that the service is somehow different than what was provided prior to 1997-98 or enhanced for CalWORKs students. In this case, CalWORKs funds could only be used to pay for the prorated share of the cost of serving CalWORKs students for providing the enhanced service or service level. It is important then that the college track the numbers of all students served in comparison to the number of CalWORKs students served.

Identified Condition

During our procedures performed to ascertain if expended CalWORKs State funds have not supplanted existing college funding and services for the general student population, we selected a sample of expenditures charged to the program that we tested in accordance with program allowable cost guidelines with no exceptions noted. Since the majority of the samples selected were for types of services that were provided to students prior to 1997-98 (i.e., child care, counseling, etc.) that would have included potentially eligible CalWORKs students. We also attempted to ascertain if the services were different, enhanced or expanded to meet the needs of an increased number of CalWORKs students using the services. However the District did not begin to track the students that would be eligible for CalWORKs until the 1997-98 school year when the CalWORKs program was implemented. They did not have a mechanism to determine which students would have been eligible prior to 1997-98 to create a benchmark as to determine if the expanded needs of an increased number of CalWORKs students used the service. We were also unable to obtain the student mix data (i.e., CalWORKs students compared to nonCalWORKs students) to support that CalWORKs funding was only used to pay a prorated share of the cost of serving CalWORKs students. Therefore, we were unable to determine if the CalWORKs expenditures sampled supplemented and did not supplant.

There does not appear to be adequate policies, procedures, or training in place direct the college campuses on how to adequately prepare documentation to support compliance with this requirement. Total expenditures for CalWORKs amounted to \$5,201,583 for the fiscal year ended June 30, 2007.

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Questioned Costs

Unknown

Recommendation for Corrective Action

We recommend the District enhance current policies and procedures to ensure that all required documentation to support any analysis is retained by its college campuses to support their compliance with program elements.

District Response

The District provided documentation to comply with the not supplant but supplement directive. Only CalWORKS Program expenditures were tested. The college CalWORKs program was developed with specific activities that were either “different, specialized, enhanced or increased” to serve a specific student population within the Colleges, in comparison to those services that were being offered in 1997-1998. Moreover, colleges are required to follow the state CalWORKs program plan and to expend funds within those specified program activities. The District will continue to work with the State Chancellor’s Office to obtain more detailed audit/compliance guideline to clarify the scope of auditing this program with respect to the not supplant but supplement directive.

S-07-11 Minimum Conditions – Standards of Scholarship (Section 436) – Published Regulations

State Criteria

California Code of Regulations, Title 5. Education, Division 6. California Community Colleges, Chapter 6. Curriculum and Instruction, Subchapter 1. Programs, Courses and Classes, Article 4. Course Repetition and Academic Renewal, Section 55040. District Policy for Course Repetition.

- The governing board of each community college district shall adopt and publish policies and procedures pertaining to the repetition of credit courses for which substandard academic work has been recorded. Such procedures shall not conflict with section 55025 or Education Code section 76224, pertaining to the finality of grades assigned by instructors, or with chapter 2.5 (commencing with section 59020) of division 10 of this part, pertaining to the retention and destruction of student records. Such procedures may:
 - (1) Permit repetition of any course which was taken in an accredited college or university and for which substandard academic work is recorded;
 - (2) Indicate any specific courses or categories of courses where repetition pursuant to this section is not permitted; and
 - (3) In determining transfer of a student’s credits, honor similar, prior course repetition actions by other accredited colleges and universities.

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Identified Condition

During our procedures performed over minimum standards of scholarship, we reviewed college campus catalogs for the disclosure of the required policies and noted 1 of the 3 campus catalogs sampled at East Los Angeles College did not contain the following required information:

- (1) Repetition of courses for which substandard work has not been recorded.
- (2) Repetition of courses for student to meet a legally mandated training requirement as a condition of continued paid or volunteer employment.
- (3) For correction of grades that allow a student to challenge a grade alleged to be based on mistake, fraud, bad faith, or in competency.

There does not appear to be adequate monitoring controls in place to ensure that all required disclosures are contained in the course catalogs.

Questioned Costs

Not applicable

Recommendation for Corrective Action

We recommend that the District enhance controls to ensure that all required information regarding standards of scholarship is included in its college campus catalogs.

District Response

The District concurs with this finding. Title V revision allows the District to change policies and these changes are currently in consultation. When completed and adopted the updated information will be provided to all colleges for appropriate posting and enforcement.

S-07-12 Minimum Conditions – Standards of Scholarship (Section 436) – Remedial Coursework Limitations

State Criteria

California Community Colleges Chancellor's Office, Legal Advisory Letter 05-05, May 19, 2005, Minimum Conditions Compliance Advice

- Remedial coursework limit (Section 55756.5). In general, students may receive no more than 30 semester or 45 quarter units of credit for remedial coursework. Clearly specify the limitation on remedial coursework that is described in section 55756.6.
- Important exceptions to this limitation exist for students enrolled in ESL courses and students who have learning disabilities. "Remedial coursework" is defined as "precollegiate basic skills courses," which are described in section 55502(d) as "those courses in reading, writing, computation, and English as a second language, which are designated by the community college district as nondegree credit courses pursuant to Section 55002(b)".

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Identified Condition

During our procedures performed over the minimum conditions for standards of scholarship, we noted District has not developed a mechanism for proper monitoring of limitations for student remedial course work to ensure that courses are not claimed for students that have exceed the 30 semester unit limitation.

In order to ascertain if any courses were improperly claimed we obtained a report from the District, which contained a total of 1,431 students that had completed 25 or more semester units of remedial course work as defined by the District, with approximately 600 of those students that had more than 30 semester units or remedial course work. From those students indicated as exceeding the 30 semester units, we selected a sample of 50 students, which had accumulated 1,360 total remedial course semester units (2,206 total units less 846 ESL) and requested waivers or other documentation to support the additional units taken and claimed for state apportionment.

The District was unable to provide supporting documentation (i.e., waivers) for 25 of the 50 students sampled. The 25 student that exceeded the 30 semester unit remedial course limitation accounted for 1,030 semester units of the sample, where they exceeded limitation by 280 total units. None of these 24 students were showed enrollment in ESL courses.

This is a repeat finding from June 30, 2006 (S-06-09) and 2005 (S-05-15).

Full-Time Equivalent Students (FTES)

115 Units = 4.91 FTES

Questioned Costs

\$18,955 (4.91 FTES Exceptions x \$3,860.58)

Recommendation for Corrective Action

We recommend that the District implement control processes and procedures to ensure that the remedial coursework limitations are monitored.

District Response

The District concurs with this finding. The District must develop a mechanism for identifying such students and correcting inappropriate reporting.

S-07-13 Minimum Conditions – Standards of Scholarship (Section 436) – Course Repetition

State Criteria

California Code of Regulations, Title 5. Education, Division 6. California Community Colleges, Chapter 9. Fiscal Support, Subchapter 2. Limitations on State Aid, Article 5. Other Limitations, Section 58161. Apportionment for Course Repetition.

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A community college district may claim the attendance of students who repeat courses for state apportionment only if so authorized by this section and if all other requirements of this chapter are satisfied.

- (a) Where substandard academic work (as defined in Section 55040) has been recorded for the attendance of a student in a credit course, apportionment may be claimed for a maximum of two repetitions of the course to alleviate substandard work.
- (b) The attendance of students in legally mandated training as provided in Section 55041 may be claimed for state apportionment without limitation.
- (c) The attendance of students in credit activity courses, as defined in Sections 55041 and 55042, may be claimed for state apportionment for a maximum of four semesters or six quarters (the original enrollment and three semesters or five quarters of repeated enrollment). For purposes of this subdivision, semesters and quarters include summer sessions and intersessions. This limitation applies even if the student receives a substandard grade during one or more of the enrollments in an activity course or petitions for repetition due to special circumstances as provided in subdivision (e) of Section 55041.
- (d) The attendance of a student with a disability may be claimed for state apportionment each time the student repeats a credit special class as a disability-related accommodation, which is justified by one of the circumstances described in Section 56029.
- (e) The attendance of a student repeating a credit course by petition pursuant to subdivision (e) of Section 55041 may be claimed for state apportionment for a maximum of two repetitions beyond the original enrollment.
- (f) The attendance of a student repeating a credit course because the district determines pursuant to subdivision (f) of Section 55041 that there has been a significant lapse of time since the student previously took the course may be counted for only one repetition beyond the prior enrollment.
- (g) State apportionment may be claimed for the attendance of a student repeating a variable unit open entry/open exit credit course or portion thereof only to the extent that repetition of such courses is permitted pursuant to Section 55043.
- (h) To the extent permitted by article 4 of subchapter 1 of chapter 6, a district may permit repetition of credit courses beyond the limits set forth in this section, but such additional repetitions may not be claimed for state apportionment.

California Code of Regulations, Title 5. Education, Division 6. California Community Colleges, Chapter 6. Curriculum and Instruction, Subchapter 1. Programs, Courses and Classes, Article 4. Course Repetition and Academic Renewal, Section 55040. District Policy for Course Repetition.

The procedures or regulations adopted pursuant to subdivision (a) may allow a student to repeat a course two times in an effort to alleviate substandard academic work. A district may, upon petition by the student, permit a third repetition of a course in which substandard academic work has previously been recorded, provided the district finds that there are extenuating circumstances which justify an additional repetition.

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Extenuating circumstances are verified cases of accidents, illness, or other circumstances beyond the control of the student. The district policy may allow the previous grade and credit to be disregarded in computing the student's GPA each time the course is repeated.

Identified Condition

During our procedures performed over the minimum conditions for standards of scholarship, we noted the District has not developed a mechanism for proper monitoring of course repetition to ensure that student course repetitions are not claimed over the allowable limit.

In order to ascertain if any students were improperly claimed we obtained a report from the District which contained a total of 1,005 students that identified the same course taken by a student 4 or more times, with approximately 100 of those students identified as more than 4 times. From that report we tested 50 students and noted the following exceptions:

- (a) 39 of those 50 students sampled had exceeded the allowable limit of 4 for repeat classes (1 original + 3 repeats)
- (b) 30 of those 39 students sampled that exceeded the allowable limit were incorrectly claimed for apportionment.
- (c) 1 of those 39 students where the college was unable to provide any supporting information (i.e., FTES, units credited, etc.)

This is a repeat finding from June 30, 2006 (S-06-09) and 2005 (S-05-15).

Full-Time Equivalent Students (FTES)

1.929 FTES exceptions of the 2.98 FTES sampled

Questioned Costs

\$7,447 (1.929 FTES exceptions x \$3,860.58)

Recommendation for Corrective Action

We recommend that the District implement policies and procedures to ensure that it does not claim courses for students that have exceeded the allowable repeat limits.

District Response

The District concurs with this finding. District Admissions and Records will review procedures to ensure that repeats are appropriately reviewed at the colleges and that FTES is not claimed for those exceeding allowable limits.

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S-07-14 Student Fees – Instructional Materials and Health Fees (Section 437) – Instructional Materials Fees

State Criteria

California Education Code, Section 76365

The board of governors shall adopt regulations regarding the authority of community college districts to require students to provide various types of instructional materials. These regulations shall reflect the intent of the legislature that community college districts are not required to provide all materials, textbooks, equipment, and clothing necessary for each course and program. These regulations shall specify the conditions under which districts may require students to provide those materials that are of continuing value to the student outside of the classroom setting, including, but not limited to, textbooks, tools, equipment, clothing, and those materials that are necessary for the student's vocational training and employment. The regulations shall establish a process for monitoring district compliance with these regulations.

Identified Condition

During our procedures performed over student fees charged by the District, we selected a sample of instructional materials fees that were collected by the campuses to ascertain that they had continuing value to the student outside the classroom and were tangible personal property that is owned or primarily controlled by the student. In our sample of 50 instructional material fees, we noted the following exceptions:

- (a) 6 of the 11 samples from Los Angeles Pierce College totaling \$2,479 were for services charged to customers for automotive repairs. These costs do not appear to meet the criteria for instructional material fees.
- (b) 7 of the 7 samples from Los Angeles Trade Technology College totaling \$471 were for manicures and haircuts charged to students. These costs do not appear to meet the criteria for instructional material fees.
- (c) 3 of the 11 samples from Los Angeles Valley College totaling \$220 were not able to provide any supporting documentation.

There does not appear to be sufficient training for the colleges to ensure that they properly classify student fees and retaining required documentation, nor does there appear to be sufficient monitoring by the District to ensure that the campuses are following policies correctly.

Total instructional materials fees reported for the fiscal year ended June 30, 2007 amounted to \$91,810. This is a repeat finding from June 30, 2006 (S-06-10 and S-06-11) and 2005 (S-05-17).

Questioned Costs

\$3,170 of the \$5,887 instructional materials fees sampled

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Recommendation for Corrective Action

We recommend the District provide additional training to its campuses to ensure that instructional material fees are recorded correctly and any documentation to support those fees be retained for the required retention period.

District Response

The District concurs with this finding. The District will implement procedures to ensure instructional material fees are recorded properly with the supporting documentation.

**SCHEDULE OF PRIOR YEAR
FEDERAL AND STATE FINDINGS**

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Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of audit findings and questioned costs and of any other as yet unresolved audit finding from previous years.

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
FS-06-01	Financial Statements Reported in Accordance with Government Standards	We recommend that management perform internally or hire a qualified specialist to perform a detailed post-implementation review of the SAP-HR implementation to address business/system controls, SAP-HR security, and SAP-HR segregation of duties.	Partially implemented	The District will further devote resources to developing, documenting, and implementing new business processes and internal controls to ensure the integrity of data entered into the SAP system either directly or through the PCR and Protocol systems. The recently hired Director of Internal Audit will play a major role in identifying the areas of the weakest controls and assist the HR and Payroll departments in this effort.
F-06-01	Student Financial Aid Cluster – Special Tests and Provisions – Disbursement to or on behalf of students	We recommend that the District develop control policies and procedures to ensure that disbursements are made timely and returned timely, as appropriate, in accordance with federal student assistance guidelines.	Partially implemented	Pierce College has coordinated each of their lender loan disbursement schedules to match the District's disbursement cycle. East Los Angeles has established procedures to coordinate EFT schedules and is in the process of training staff.
F-06-02	Student Financial Aid Cluster – Reporting	We recommend that a designated District employee collect and compile all supporting documentation for each FISAP report in an organized and referenced manner into one file and	Fully implemented	Not applicable

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Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-06-03	Student Financial Aid Cluster – Special Tests and Provisions – Students Status Changes	retained for audit purposes in accordance with federal record retention requirements. A separate District employee should perform a detailed review and trace the supporting documentation in the file to the numbers reported on the FISAP. This detailed review should be evidenced by a sign-off of the reviewer before it is approved for online submission.	Partially implemented	The District is working with the clearing house to ensure compliance and has changed its enrollment reporting from 60 days to 30 days to ensure timeliness of reporting.
F-06-04	VTEA – Equipment Management	We recommend that the District enhance its current policies and procedures over the disposals of equipment to include some additional procedures/documentation for equipment acquired with federal funds. They should either enhance the current general equipment disposal forms or create an additional disposal form for	Partially implemented	The District is currently updating the fixed asset policy to ensure compliance for equipment acquired with federal funds.

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Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-06-05	VTEA – Equipment Records	federally funded equipment to include information regarding the market value of the equipment disposed or transferred to another program, cash proceeds, and approval from the awarding federal/state agency (as applicable). The colleges should establish and place an adequate system to ensure compliance with the equipment requirements. East, Trade-Tech, and West Colleges should tag the equipment purchased with the program fund with the name of the program, Trade-Tech and West should tag the program equipment with the property ID numbers, Mission College should maintain the inventory records, and Mission, Trade-Tech, and West College should include the acquisition date of the program equipment in the properly records.	Partially implemented	The District is currently updating the fixed asset policy to ensure compliance for equipment acquired with federal funds.
F-06-06	VTEA – Exception to the Period of Availability	We recommend that the campus mail the disbursement checks to the payees instead of retaining at the college waiting to be picked up to	Fully implemented	Not applicable

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Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-06-07	VTEA – Absence of Control for Procurement	<p>ensure the liquidation within 90 days after the end of the funding period.</p> <p>We recommend that the program director or staff indicate on the purchase orders on the SAP system that they are the federally funded program purchases, which need the vendor's status verification if the purchase is over \$25,000. Furthermore, we recommend that the purchase department staff at the college level perform the verification of the vendor status on the Excluded Parties Listing System of all program purchases, and note the date of the procedure performed and the result of the verification on the Purchase Order (PO) on the SAP system.</p>	Partially implemented	The District will work closely with the colleges to ensure compliance with the required verification of EPLS requirements.
F-06-08	VTEA – Noncompliance with Procurement Requirements	<p>Per discussion with the District's contracts and Purchasing manager, the purchase orders are processed online in the SAP system, and the procurement associates at the college level or the procurement specialist at the district office cannot distinguish the federally funded program purchases that require price analysis, from other purchases. We</p>	Fully implemented	Not applicable

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Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-06-09	VTEA – Time and Effort Reporting	<p>recommend that the program director or staff indicate on the purchase orders the SAP system that they are the federally funded program purchases, which need the price analysis if under \$5,000, three quotes if over \$5,000 and under \$65,100, and formal bids and Board approval if over \$65,100. In addition, we recommend that the college procurement office or the District office retain the appropriate vendor contract on file for future reference.</p> <p>We recommend that the full-time employees sign on appropriate semiannual activity certification showing the percentages charged to the programs, and the supervisors of part-time employees appropriately review and approve their timesheets as required by the District policy. Also, the certification or timesheet should distinguish the employee’s direct activities from indirect activities, which is not directly allocable to the program. We recommend that the District review its current procedures for</p>	Partially implemented	The District will provide additional training to ensure proper supporting documentation is maintained for payroll expenses charged to the VTEA program.
F-06-10	TRIO Cluster – Controls Over		Partially	The colleges will continue to strengthen controls to ensure the determination of

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Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
	Eligibility Determination	documenting eligibility to ensure that it has adequate controls in place to help ensure compliance with the program.	implemented	eligibility requirements are made and documented in compliance with the program.
F-06-11	TRIO Cluster – Eligibility Exceptions	We recommend each college strengthen its controls over the eligibility determination to ensure compliance with the eligibility requirements. This should include maintaining supporting documentation to support the eligibility assessments made by each college.	Partially implemented	The colleges will continue to strengthen controls to ensure the determination of eligibility requirements are made and documented in compliance with the program.
F-06-12	TRIO Cluster – Lack of Payroll Controls	We recommend that proper review by the supervisor or director should be performed over the timesheets of the employees whose time is charged for the Upward Bound and SSS programs in City College, and Upward Bound Program in Southwest College.	Partially implemented	The District continues to review its timesheet procedures to ensure proper controls in payroll.
F-06-13	TRIO Cluster – Allowable Costs	We recommend that the full-time employees sign an appropriate semiannual activity certification showing the percentages charged to the programs, and the supervisors of	Partially implemented	The District will provide additional training to ensure proper supporting documentation is maintained for payroll expenses charged to the TRIO program.

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Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-06-14	TRIO Cluster – Noncompliance with Procurement Requirements	part-time employees appropriately review and approve their timesheets as required by the District policy. Also, we recommend that the program director of each college review the expenditure reports periodically to ensure accuracy of the salary expenses charged to the program.	Partially implemented	The District provided additional training including keeping all supporting documentation for price analysis to ensure compliance with the federal procurement guidelines.

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Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-06-15	Strengthening Institutions Program – Controls Over Equipment Management	approval if over \$65,100. We recommend that the District implement an adequate control system in place to ensure compliance with the equipments requirements. Also, we recommend that the district policy should be updated to include appropriate provision for the equipment purchased with federal funds. Without adequate policies and procedures in place to properly identify equipment disposals acquired with federal funding, the District may be noncompliant with federal and state equipment requirements.	Partially implemented	The District is currently updating the fixed asset policy to ensure compliance for equipment acquired and equipment disposed with federal funds.
F-06-16	Strengthening Institutions Program – Equipment Management	The District should establish and place an adequate system to ensure compliance with the equipment/real properties requirements.	Partially implemented	The District is currently updating the fixed asset policy and procedures and will work with the colleges to ensure compliance with Federal equipment management regulations.
F-06-17	Strengthening Institutions Program – Supplement Not Supplant	We recommend that the colleges receiving the Strengthening Institution’s funding incorporate into their internal control procedures the performance of the quantitative	Partially implemented	The District believes its analysis supports it did not supplant existing programs. The District will clarify with U.S. Department of Education to obtain more detailed audit/compliance

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Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-06-18	Strengthening Institutions Program – Noncompliance with Procurement Requirements	analysis of the funding sources of the program expenditures every year to ensure that the colleges are in compliance with the supplement not supplant requirement, and the appropriate college official should review and approve the analysis to ensure the completeness and accuracy of the analysis.	Partially implemented	guideline with respect to the supplementing and not supplanting issue.
		Based on discussions with the District’s contracts and purchasing manager, the purchase orders are processed online in the SAP system, and the procurement associates at the college level or the procurement specialist at the District office cannot distinguish the federally funded program purchases that require price analysis from other purchases. We recommend that the program director or staff indicate on the purchase orders, on the SAP system that they are the federally funded program purchases, which need the price analysis if under \$5,000, three quotes if over \$5,000 and under \$65,100, and formal bids and board approval if over \$65,100. In		The District provided additional training including keeping all supporting documentation for price analysis to ensure compliance with the federal procurement guidelines.

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Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-05-01	Eligibility and Verification – Segregation of Duties and Evidence of Review for Eligibility, Verification, and Aid Packaging Controls	<p>In addition, we recommend that the college procurement office or the District office retain the appropriate vendor contract on file for future reference.</p> <p>We recommend that the District review its current access controls for the different levels of employees in the DEC system to develop a system control to restrict access of various duties (packaging, and the like) to specified employees/job titles to help ensure that there is a segregation of duties for the employees performing the intake and the employee approving the packaging. We further recommend that the campuses examine their current control procedures to ensure that evidence of controls (i.e., review and approvals) be documented.</p>	Fully implemented	Not applicable
F-05-05	Special Tests and Provisions (Disbursements To or on Behalf of Students) – Disbursements Not Made within Required	We recommend that the District develop control policies and procedures to ensure that disbursements are made timely and returned timely, as appropriate, in accordance with federal student	Partially implemented	Pierce College has coordinated each of their lender loan disbursement schedules to match the district disbursement cycle. East Los Angeles has established procedures to coordinate EFT schedules

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Year ended June 30, 2007

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-05-08	Time Frames Special Tests and Provisions (Student Status Changes) – Late Reporting of Student Status Changes of FFEL or Direct Loan Borrowers to NSLDS	We recommend that the District monitor its student status transmissions more closely to ensure that they are made within the required time frames to comply with Title IV regulations.	Partially implemented	and is in the process of training staff. The District is working with the clearing house to ensure compliance and has changed its enrollment reporting from 60 days to 30 days to ensure timeliness of reporting.
F-05-09	Reporting and Matching – Lack of Controls and Reporting Errors over FISAP Reporting	We recommend that a designated District employee collect and compile all supporting documentation for each FISAP report in an organized and referenced manner into one file retained for audit purposes in accordance with federal record retention requirements. A separate District employee should perform a detailed review and trace the supporting documentation in the file to the numbers reported on the FISAP. This detailed review should be evidenced by a sign-off of the reviewer before it is approved for online submission.	Fully implemented	Not applicable
		We further recommend that the		

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year Federal and State Findings

Year ended June 30, 2007

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-05-12	Equipment Management – Policies and Procedures over Equipment Dispositions	<p>District develop and implement policies and procedures that would ensure that all campuses identify and track students separately that meet various matching and earmarking requirements, so as to ensure more accurate data to help reduce the risk of potential noncompliance and inaccurate reporting. This could be done through the creation of specific activity codes in the WBS system for students who are required to be matched and reported in specific FISAP categories. The college could then generate system reports to account for all students paid under the work-study program to reduce the risk of double counting and/or reporting in the incorrect category.</p>	Partially implemented	The District is currently updating the fixed asset policy to ensure compliance for equipment acquired and equipment disposed with federal funds.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year Federal and State Findings

Year ended June 30, 2007

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
F-05-15	Procurement – Competitive Bidding	additional disposal form for federally funded equipment, to include information regarding the market value of the equipment disposed or transferred to another program, cash proceeds, and approval from the awarding federal/state agency (as applicable).	Partially implemented	The District provided additional training including keeping all supporting documentation for price analysis to ensure compliance with the federal procurement guidelines.
F-05-16	Eligibility – Controls over Eligibility Determination for Upward Bound Programs	We recommend that the District review its current procedures for documenting eligibility in the Upward Bound program to ensure that it has adequate controls in place to help ensure compliance with the program.	Partially implemented	The colleges will continue to strengthen controls to ensure the determination of eligibility requirements are made and documented in compliance with the program.
S-06-01	Salaries of Classroom	We recommend that the District revise	Fully	Not applicable

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year Federal and State Findings

Year ended June 30, 2007

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
	Instructors – 50% Law – Section 421	their benefits spreadsheet and review it for completeness and consistency with the requirements of Education Code Section 84362. We also recommend that the District further review the State Compliance guidelines and the CCFS-311 instructions.	implemented	
S-06-02	Apportionment for Instructional Service Agrmts – Section 423	We recommend that the District keep track of the Instructional Service Agreements that are in effect. This will provide auditors with a complete listing of the Agreements. Currently, we are depending on the campuses to identify the Instructional Service Agreements that they have in place; this creates room for error.	Not implemented	The District will continue to explore system modifications to track such data.
S-06-03	Residency Determination for Credit Courses – Section 425	We recommend that the appropriate office personnel certify the “application of admission” form by physically writing in and verifying the residency code on the form.	Partially implemented	The District has implemented an automated system that utilizes the state residency algorithm. In addition, there is increased use of the electronic application process through CCC Apply, which results in required residency checking and compliance.
S-06-04	Concurrent Enrollment – Teacher Qualifications	We recommend that the District hire a compliance specialist for each of	Partially	The District’s Human Resource Department has created a new hire log to

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year Federal and State Findings

Year ended June 30, 2007

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
	– Section 427	the colleges. This individual can monitor and enforce state requirements on a regular basis.	implemented	formally track the teachers minimum qualifications to help ensure compliance with the State’s minimum qualifications.
S-06-05	Matriculation – Approval of Plans – Section 428	We recommend that the individual colleges prepare, review, and submit their matriculation plans on a timely basis for approval by the State.	Fully implemented	Not applicable
S-06-06	Matriculation – Approval of Plans – Section 428	We recommend that the individual colleges submit their matriculation plans to the Chancellor’s Office on a timely basis for approval.	Fully implemented	Not applicable
S-06-07	Improper Salary Classification Instructional Costs – Section 327	We recommend that the District review and address the issues noted above related to the preparation of the CCFS-311 instructions before preparing the report.	Fully implemented	Not applicable
S-06-08	CalWorks – Variances in Salary Expenses – Section 433	We recommend that the District hire a consultant who is familiar with the SAP payroll system, and who can train the payroll department.	Partially implemented	The District is enhancing current policies and procedures to help resolve payroll issues noted in the processing of salary disbursements.
S-06-09	Minimum Conditions Repeated Courses – Section 436	We recommend that the District implement a policy to have the schools run a repeat report after the	Not implemented	District Admissions and Records will review procedures to ensure that repeats are appropriately reviewed at the

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year Federal and State Findings

Year ended June 30, 2007

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
S-06-10	Student Fees – Material Fees – Section 437	close of a semester, to catch these situations. We also recommend the colleges implement an adequate control structure to ensure proper follow-up with the illegal repeat reports, including the resolving of all issues. In addition to the campuses implementing improved procedures over working the repeat reports, we recommend that District Attendance Accounting perform spot checks on the number of repeat courses that are claimed for state apportionment.	Not implemented	colleges and that FTES is not claimed for those exceeding allowable limits.
S-06-11	Student Fees – Support for Material Fees – Section 437	We recommend that the District maintain detailed records of student materials fees. We recommend that the individual colleges properly organize and file away all necessary syllabi for a minimum of two years.	Not implemented	The District will implement a procedure to ensure detail records of material fees are maintained. The District will implement procedures to ensure that all students are properly notified of instructional material fees.
S-06-12	Matriculation – Support for Expenses – Section 428	We recommend that the District hire a consultant who is familiar with the SAP payroll system to address the exceptions noted in the processing of salary disbursements at the District.	Not implemented	The District is enhancing current policies and procedures to help resolve payroll issues noted in the processing of salary disbursements.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year Federal and State Findings

Year ended June 30, 2007

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
S-05-03	Instructional Service Agreements/Contracts (Section 423) and Concurrent Enrollment of K-12 Students in Community College (Section 427) – No Formal Tracking Mechanism for Courses Taught under Agreements/Contracts	We recommend that the District develop a more formally structured coding system for the colleges so that the District can more easily and accurately track and report courses taught under instructional service contracts/ agreements or on an off-campus facility, which would include classes taught on high school campuses.	Not implemented	The District will work with information technology to develop a formal structured coding system for the colleges.
S-05-04	Residency Determination for Credit Courses (Section 425) – Incorrectly Classified Student	We recommend that the District strengthen its internal control process over input and review of student application information entered into the District’s student data system to ensure that students’ residency information is captured and reported accurately to the State Chancellor’s Office.	Not implemented	The District will work with Admissions and Records to improve the residency information being reported to ensure compliance requirements are being met.
S-05-07	Use of Matriculation Funds (Section 428) – College Matriculation Plans	We recommend that the District continue to review its credit and noncredit matriculation plans against the current plan guidance and submit updates to the State Chancellor’s Office accordingly, to ensure	Fully implemented	Not applicable

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year Federal and State Findings

Year ended June 30, 2007

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
S-05-13	Minimum Conditions – Standards of Scholarship (Section 436) – Student Exceptions to the Course Repeat Policy	compliance with State-approved activities. We recommend that the District strengthen current policies and procedures to ensure that student enrollment in repeated courses conforms to the District’s policy and that students are not claimed over the allowable number of times for repeated courses in accordance with the State Chancellor’s policy.	Not implemented	District Admissions and Records will review procedures to ensure that repeats are appropriately reviewed at the colleges and that FTES is not claimed for those exceeding allowable limits.
S-05-14	Student Fees – Instructional Materials Fees and Health Fees (Section 437) – No Course Tracking of Instructional Material Fees	We recommend that the District reimplement this tracking mechanism to separately identify courses, which assess required and optional instructional material fees to assist in the compliance with additional required state compliance testing.	Not implemented	The District will work with information technology to implement a tracking mechanism that ensures full compliance.
S-05-15	Student Fees – Instructional Materials Fees and Health Fees (Section 437) – Support for Instructional Material Fees Assessed	We recommend that the District implement policies and procedures to ensure that all students are properly notified of amounts of instructional material fees and if they are optional or required. This notification should not only be	Not implemented	The District will implement procedures to ensure that all students are properly notified of instructional material fees.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Schedule of Prior Year Federal and State Findings

Year ended June 30, 2007

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
		included on the course syllabus but should also be included on the course schedule for full disclosure to the students before they enroll in the course.		

REPORT TO MANAGEMENT



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

March 14, 2008

The Honorable Board of Trustees
Los Angeles Community College District
Los Angeles, California

The Members of the Board:

We have audited the financial statements of Los Angeles Community College District (the District) for the year ended June 30, 2007, and have issued our report thereon dated March 14, 2008. In planning and performing our audit of the basic financial statements of the District, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The maintenance of adequate control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management and board of trustees of the District, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Prior Year Comments

Summarized below is the current status of all audit management letter comments reported in the prior year's report on audited basic financial statements and of any other as yet unresolved audit finding from previous years.

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
FS-06-01	Financial Statements Reported in Accordance with Government Standards – Payroll	We recommend that management perform internally or hire a qualified specialist to perform a detailed postimplementation review of the SAP-HR implementation to address business/system controls, SAP-HR security, and SAP-HR segregation of duties.	Partially implemented	To address these critical concerns new Payroll and HR reports have been developed that assist the staff and management in reconciling payments, and determining employees on unpaid leave, and reviewing the payroll edits for potential incorrect pays. The development of these reports is an ongoing process. Mini-Project teams have been formed to address specific systems errors that cause error-pay. Specifically the collection and remittance of both union dues and retirement deductions will be automated and standardized to capture the required deductions timely and correctly. The District has recently hired a new training coordinator to develop and conduct training modules in HR and Payroll for the campus and district staff.

The District will further devote resources to developing, documenting, and implementing new business processes and internal controls to ensure the integrity of data entered into the SAP system either directly or through the PCR and Protocol systems. The recently hired Director of Internal Audit will play a major role in identifying the areas of the weakest controls and assist the HR and

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
2006 Comment #1	Lack of Documented Policies and Procedures for Change Control	We recommend that management design and implement adequate change management procedures to help ensure that changes to the District's business systems are made in a controlled manner.	Partially implemented	<p>Payroll departments in this effort.</p> <ul style="list-style-type: none"> Management Response to (a): Since the arrival of the new SAP Manager a SAP System Refresh Scheduled has been implemented. The SAP Landscape (Sandbox, Quality Assurance and Project) are refreshed every six months. This process is documented Management Response to (b): The Quickbase Transport process already enforces change management procedures with appropriate separations of duties; only IT management can approve transports to PRD and QAS. Only Basis personnel can perform the import into PRD and QAS. These processes are currently in place and are documented. All approvals and requests are documented in the system with support documentation when appropriate. The Districts is also using HP's Mercury Quick Test Professional and Quality Center application to document and provide additional process and procedures around quality assurance testing. This is also documented. <p>Since the arrival of the new SAP Manager SAP ASAP Method for implementation is being used for new projects. This method is similar to ITIL processes and is proven methodology. It has been</p>
2006 Comment #2	Lack of Documented Policies and Procedures for	We recommend that management formalize a set of system development/acquisition	Partially implemented	

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
2006 Comment #3	Lack of Documented Policies and Procedures for Information Security	policies and procedures to help ensure that any major developments or acquisitions are reviewed, approved, tested, and converted in a controlled manner.	Fully implemented	used several project successfully and is being build into the processes. For instance, for smaller implementations such as the Protocol acquisition and implementation, we used Gartner's implementation and tool set. In the case of the forthcoming Degree Audit acquisition, we used the Gartner package acquisition methodology that meets SDLC parameters and will use the selected vendors' methodology for the implementation. That being said, we agree with the auditors that there is value in having a formal statement of our current practices. Infotech has as a project to compile a comprehensive set of IT policies and procedures and SLDC will be one component of that.
		We recommend that management add formal password policy guidelines to its existing 'Business Rule 27' and 'Business Rule 28' information security policies, standards, and procedures. As a general rule, a password policy should indicate that all platforms and systems should adopt the stronger password usage where applicable. Once these policies, standards, and		

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
2006 Comment #4	Lack of Documented Policies and Procedures for Administering Logical Access to the Network, SAP and DEC System	procedures have been implemented, management should communicate them to all personnel. We recommend that management design and implement adequate procedures to help ensure access administration over the Network, SAP, and the DEC system is conducted in a controlled manner.	Partially implemented	Formal procedures are documented and in place for most access. Physical access to the Data Center – Policies and Procedures are being reviewed with Business Services for updating. It must be noted that SAP access does require management approval. The new SAP manager has improved the notification process for approval and review process by having SAP HR actions and event notify security when actions take place that have a subsequent action for separation and change in system access. This notification is real time, is documented and has tracking and tracing capability. Additional Policies & Procedures will be developed as part of a Security Project which has yet to be scheduled. Access Procedures, Policies and systems to the Data Center is being reviewed with Business Services to isolate access from all other facilities.
2006 Comment #5	Lack of Review of Roles and Access Rights Across the Systems	We recommend that management conduct periodic reviews of both roles within the organization and of user access for all systems and applications. Over time,	Partially implemented	Once HR and Payroll define the appropriate roles and segregation of duties, IT can enforce these authorizations. We need to develop a procedure for coordinating change/termination of staff assignments that would be then applied to SIS. SAP FI and HR access are automatically done in SAP. Additional automated security access notifications

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
2006 Comment #6	Inappropriate User Access on System	<p>user access may become inappropriate, especially since the District does not have a control in place to revoke old access rights from terminated or transferred personnel in a timely manner.</p>	Partially implemented	<p>are generated from SAP when initial HR actions are generated that comply with the approval process. We used to have a monthly report we delivered to LAN Administrators showing staff with no assignments per campus when HIS was part of the DEC but since we went live with SAP HR, it is no longer up to date. The District will review if this could be converted and reactivated. This will be part of a much larger project to review security roles and definitions.</p>
	<p>We recommend that management delete or disable the profiles identified in the Observation above, as well as conduct a review of users within all groups on the Network, SAP, and the DEC system in order to determine if profiles have been appropriately deleted. Please note that several items were remediated during the course of our audit work.</p>	<p>Our OPERATOR account is shared for batch production purposes. Operators who share this account are identified individually on our daily production hardcopy work schedules. Creating individual user accounts to run batch production for all of operations staff (with privileges). We currently do not have the software systems manpower resources to implement this requirement.</p> <p>End users are removed periodically. The District does have a policy in place that deactivates user access within 90 days if no activity has been recorded. Additional automated notification and alert have been in place. The current SAP listing has been updated and those deemed not needing access have been removed. Some roles for Production Support are being modified to reflect current duties. Some other work will be completed along with additional review and redesign as part of the ERP</p>		

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

<u>Finding reference</u>	<u>Finding description</u>	<u>Recommendation</u>	<u>Current status</u>	<u>Explanation if not fully implemented</u>
2006 Comment #7	Lack of Documentation, policies, and procedures surrounding backup media and restoration	We recommend that management conduct a periodic test of its backup tape media similar to the as-needed restorations conducted for end users. We also recommend that management re configure the Legato Backup application to maintain backup logs for at least one year as auditable evidence of the performance of periodic or as-needed restorations. Finally, we recommend that management remove any noted unauthorized access to its data center, so as to limit the potential for a breach of security.	Partially implemented	<p>Security Project.</p> <ul style="list-style-type: none"> • Management response to (a) above: Restoring files and full server systems is done periodically at the request of our Software and Systems and Programming group. Once our new “Data Protector” Enterprise Backup software is installed, we will review and setup restore testing procedures. • Management response to (b) above: Our current Legato backup software does not have the necessary logs to capture this data. Once “Data Protector” is implemented, we will investigate and produce the necessary log reports regarding our restores. • Management response to (c) above: The NPowerDNA Access System is managed by building management and is not controlled by the IT Department. A recent review of the data center access list was completed and 30 names were removed from the access list. A monthly review of data center access will be implemented.

With the implementation of our new Data Protector software, a full review of our backup procedures will be done. IT management has reviewed the data center access list and removed individuals who do

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
2006 Comment #8	Application-related issues in relation to business processes	We recommend that management conduct periodic reviews of both roles within the organization and of user access for the SAP system in order to remove user access that generates segregation-of-duties conflicts within the HR, Procurement, and Payroll processes. Furthermore, we recommend that management configure the SAP application to prevent the processing of a PO when funds to process the order are insufficient.	Partially implemented	not require access. Some duties as identified in small organizations cannot be easily segregated due to staff resources availability. The District will look at limiting the Payroll Manager's capability to update tax tables directly in SAP. The District has also reviewed the access reports and has already made changes to reflect more appropriate access rights for selected users. More will be updated over the coming months as additional reviews are completed.
Prior Years Comment #1	Accounts Receivable Aging Report	Due to the lack of an Accounts Receivable aging report, the District is unable to clearly decipher the age of their outstanding accounts. Thus, this effects the valuation of the receivables. We recommend that the District develop an Accounts Receivable aging	Partially implemented	The District has an Accounts Receivable aging report but modifications are needed.

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
Prior Years Comment #2	Verification of Exception Reports	report to facilitate management's review of outstanding receivables and expedite the collection efforts of delinquent receivables. Without verification that exception reports are reviewed and authorized, no one can verify that the control governing authorization of employee file changes are taking place. As DEC is no longer used after July 1, 2005, management should ensure that the authorization controls within SAP are in place so that when employee files are altered, there is a documented management review taking place.	Fully implemented	Not applicable
Prior Years Comment #4	Password Sharing	There is no ability to determine who executed jobs in the event that a job is run incorrectly or controls over who can execute a job	Partially implemented	The District does not agree with this recommendation. The Operations teams on each shift have worked together for many years. By running jobs on a single account, they are able to share responsibilities much more readily. Separating

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
Prior Years Comment #5	Logical Access Restriction to Background Job Processing	<p>if the integrity of the password is compromised. We recommend that management assign individual user IDs and passwords which allows for the execution of batch jobs to users according to job responsibilities.</p> <p>The current system configuration may create an increased risk to the Company of batch IDs being exploited for unauthorized access to functions and data, as well as the introduction of malicious code to the production system. We recommend that management change the ID types to System/Background as opposed to Dialogue to prevent users from logging into the system. We further recommend that management remove batch IDs that are not entirely</p>	Partially implemented	<p>the accounts would significantly lower their productivity. The Operations team religiously keeps a log of jobs run which mitigates the impact cited above. While the recommendation may be appropriate for a data center with high turnover, it would reduce our Operations team's effectiveness with no real gain in security or risk reduction.</p> <p>During the period immediately following go-live, it was unclear which authorizations batch processes are needed in order to run successfully. SAP_ALL was granted to those jobs that were critical to processes such as payroll runs to ensure that they would not abort and risk late payrolls. We will analyze the batch jobs associated with SAP_ALL and assign the appropriate authorizations level.</p>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
Prior Years Comment #6	SAP Logical Access	<p>necessary and/or revoke the level of privileges assigned to these IDs. Concurrently, we recommend that management restrict the S_BTCH_NAME authorization object to only those users demonstrating job responsibilities commensurate with this privilege, if necessary at all.</p>	Partially implemented	<p>The District will improve its procedures to remove unauthorized SAP users and review existing SAP users to ensure compliance to District policy. Some roles review been competed for key areas and automated alerts and notifications have implemented to partially address this issue. Additional work will be part of a future security review project that has yet to be started.</p>
		<p>Lack of proper security, or the absence of effective logical access controls, can potentially expose the District to an increased risk of unauthorized access to transactions and data in the mission-critical systems. We recommend that detailed review be performed over the validity of all users within SAP and their current user privileges, as inappropriate access configurations appear to be systemic. This review should be conducted to help assert that only appropriate</p>		

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
Prior Years Comment #9	HIS Logical Access	<p>users have access to the critical transactions and that their access is in line with their job responsibilities. In addition, users' access should be reviewed on a regular basis to help ensure that user access is in compliance with the District's policies and practices. Based on the results of the review, management should undertake appropriate steps to remove unauthorized users and make necessary adjustments to user access to the SAP system.</p>	Partially implemented	<p>The District implemented SAP HR and initially, the focus was on stabilizing the system. The District will perform a thorough review of all users' access to ensure compliance with District policy. Some reviews have been completed for key areas. Additional work needs to be done as part of a future SAP Security project.</p>

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
		<p>of all users within HIS and their current user privileges, as inappropriate access appears to be systemic. This review should be conducted to help assert that only appropriate users have access to the critical transactions and that their access is in line with their job responsibilities. In addition, users' access should be reviewed on a regular basis to help ensure that user access is in compliance with the District's policies and practices. Based on the results of the review, management should undertake appropriate steps to remove unauthorized users and make necessary adjustments to user access to the HIS system.</p>		

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
Prior Years Comment #11	Payroll Exception Reports	We recommend that the District require the payroll technician supervisor sign off on the exception report once reviewed.	Fully implemented	Not applicable
Prior Years Comment #12	Inappropriate VMS System Access	We recommend that management institute a procedure to periodically review users with access to powerful administrative functions within all sensitive applications. Any inappropriate access would be detected from this review and need to be removed immediately.	Partially implemented	The file system in VMS links to the user account of the creators and editors of files. This feature enables us to easily determine when changes have been made and by whom, a critical requirement for establishing audit trails. By deleting the user account, we would lose the audit trail. Since disabling the account has the same effect as deletion of preventing unauthorized access, our policy has been and will remain to disable accounts rather than delete them.
Prior Years Comment #13	Inappropriate SAP System Access	We recommend that management create a role-based access matrix for SAP, which should list, at a minimum, the transactions that should not be grouped together and profiles that should not be assigned together that would result in a segregation of duties conflict. This matrix should be reviewed during the	Partially implemented	As part of the SAP HR implementation, we have conducted a comprehensive review of SAP access and user authorizations and developed an authorization strategy. Role-based authorizations were implemented for SAP HR. System audit logging has been implemented for sensitive transactions. Some roles have been modified to limit access for IT and Business employees. Additional work needs to be done as part of future SAP Security Project.

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Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
		<p>maintenance/creation of profiles and during the assignment of user access.</p>		
		<p>A detailed review should be performed over the validity of all users and their access to SAP. This review should be conducted to verify that only appropriate users have access to SAP and their access is in line with their job responsibilities. In addition, users' access should be reviewed against the access matrix to help ensure that user access is in compliance with the District's segregation of duty policies. Compensating controls will be required in situations where users may have segregation of duty conflicts, but are required to have the access to perform their jobs. Based on the results of the review, management should undertake appropriate steps to remove unauthorized</p>		

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
Prior Years Comment #14	Change Management	<p>users and make necessary adjustments to user access to SAP.</p> <p>Additionally, the District should consider enabling system audit logging for sensitive transactions to provide evidence whether inappropriate users have executed unauthorized transactions.</p>	Fully implemented	Not applicable
		<p>We recommend that management implement standard change management policies and procedures to be applied over all financially significant information systems. The standard electronic change requests should ensure proper testing and authorization for all system changes. Access for the programmers in the SIS_PROD_WRITE rights identifier to move a source code into production should also be removed.</p>		

LOS ANGELES COMMUNITY COLLEGE DISTRICT

Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
Prior Years Comment #15	Internal Audit	To mitigate these risks and to help address the control findings noted during the current year audit, we encourage the District to strengthen and expand its internal audit department.	Partially implemented	The District hired a Director of Internal Audit in March of 2007. Upon his arrival he has compiled an audit plan, organized the unit and is in the process of staffing it with additional auditors. The Director along with one senior auditor has performed a number of audits during the year, made and implemented several recommendations, presented workshops and written procedures. The unit has the responsibility for following up on corrective action plans of the annual independent audit along with assisting in implementing such plans. The establishing and staffing of this unit will reinforce the importance of the District's policies and will deter employees from noncompliance of prescribed controls.
Prior Years Comment #16	Lack of Formal IT Strategic Plan	We recommend that management develop short- and long-term IT strategic plans that are aligned with the District's overall business strategy. The IT strategic plans should address business systems that will be needed in the future to assist the District in meeting its overall business goals.	Partially implemented	The District has completed a review strategy for a District-wide information technology infrastructure. This also includes discussion with an external vendor to review ITIL putting formalized practices in place.

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Prior Year's Comments

Finding reference	Finding description	Recommendation	Current status	Explanation if not fully implemented
Prior Years Comment #17	Recording of Capital Leases	We recommended that the District develop a method to properly identify and record capital leases. The District should also establish an asset category as "assets held under capital leases" to properly track and report assets held under capital lease obligations.	Fully implemented	Not applicable
Prior Years Comment #18	Payroll Procedures Manual	We recommended that the District update the Payroll Procedures Manual and continue to update the manual on an ongoing basis. This would allow District Employees to rely on the manual as a relevant reference material and prevent noncompliance with changing laws and regulations.	Partially implemented	The SAP software for HR and Payroll is an integrated module that was initiated in July 1, 2005. Payroll is the back-end of the pay cycle. The payment for wages begins at the assignment formulation level which is an HR function. Thus, the District has been updating the Human Resource Guides and generating user manuals such as the Automated Personnel Change Request (PCR) System. The HR Guides and user manuals are posted on the Internet and Intranet websites. Monthly user meetings with HR and Payroll power users are held to assist in the dissemination of the information. Similar user documents related to payroll processing such as Faculty Absence Reporting are being developed.